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THESIS

ACCOUNTING FOR SAVINGS BANKS

By

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(B.S. Simmons College 1931)

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## INTRODUCTION

"Accounting for Savings Banks" is written from a desire to present to those people, increasing in number, who are interested in having set forth in concrete form some of the best practices of accounting methods in savings banks, and particularly, mutual savings banks, in existence today. Although the fundamentals of savings banking are the same, constant improvement has taken place, since the inception of the savings bank, in the services rendered to the public and the manner of keeping account of the public's savings.

To the best belief and knowledge of the writer, there is but one other thesis submitted to the College of Business Administration dealing with accounting methods for savings banks, and this thesis covers only the handling of depositors' accounts, using the hand posting method, which is not given in the present thesis.

Material used as the basis of "Accounting for Savings Banks" has been obtained from the selected operations of some of the more progressive, yet conservative, mutual savings banks. Very little has been written concerning savings banks, as a whole, therefore book sources were limited.





It is the purpose of this study to (1) observe the growth of the savings bank movement and more particularly the growth of the mutual savings bank; (2) to present the up-to-date methods of (a) caring for the customers' accounts and (b) caring for the bookkeeping records of the bank proper; (3) to give a superficial working knowledge of investment policies and regulations; (4) to present a suggested form of audit procedure for a savings bank.

Although the thesis presupposes on the part of the reader a knowledge of the fundamentals of Accounting, an attempt has been made to present the material in as non-technical a manner as possible.

The text is divided into five parts, which cover the explanation and growth of a mutual savings bank; accounting methods for savings banks; investment policies and regulations; suggested form of audit of a mutual savings bank; and a brief summary emphasizing the points, which seem more important.

The sources from which the information was taken, with the exception of the practical knowledge from actual operation and observation, are shown in the appendix.

February 1, 1938

Doris Woodward Bellamy



PART I  
A MUTUAL SAVINGS BANK



## CHAPTER I

### A MUTUAL SAVINGS BANK

#### Definition and Brief History

A mutual savings bank, as it has come to be known and as it is in practice now, may best be defined in the words of William H. Kniffin, Jr., in his book, "The Savings Bank and Its Practical Work":<sup>(1)</sup> "A Savings bank is a mutual institution conducted (without stockholders) without profit to the manager, for the purpose of receiving on deposit and for safe-keeping such sums as may be offered, limited by the law of the State, and investing the same for account of the depositors jointly and severally in such manner as shall be prescribed by law, and paying to the depositors as interest all the earnings of the institution except the amount paid for expenses and such part as may be set aside and held in reserve as a guaranty fund for the benefit and protection of all."

This is not such a far cry from the original intentions of the founder of the modern savings bank and that is the idea of teaching thrift to the people by enabling them to place their frugal funds in a common place to earn more money, paid to them in the form of dividends; to help them take care of themselves financially.

The first "modern" savings bank dates from May 10, 1810. To the Reverend Henry Duncan, of Dumfriesshire, Scotland, goes the honor of having conceived the first practical

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(1) Kniffin, Wm.H., Jr., "The Savings Bank and Its Practical Work," Chapt.III, page 25, 1912, The Bankers Publishing Co.





plan for a savings bank.<sup>(1)</sup> The Dumfries community was good field because of Scotch thrift, but hard because of poverty and the lack of wealthy men able and willing to assist him with his scheme. Dr. Duncan succeeded single-handed however. He seems to have been the first person to realize the fact that the savings bank should be first thoroughly organized, and that while philanthropic in its management, it is far from being a charity in its benefits.<sup>(2)</sup> Dr. Duncan educated the people to understand the value of saving; and he rewarded them by paying interest from the investments, instead of from charity, as heretofore; and finally he ran the "bank" upon the earning power of money at work rather than the generosity of friends.

There were three classes of membership in Dr. Duncan's bank:<sup>(2)</sup>

1. Ordinary--the poor who deposited;
2. Extraordinary--those who paid sums into an auxiliary fund of a certain amount;
3. Honorary--those who paid larger sums into the auxiliary fund. Today, of course, there is but one class of depositor, and he is the customer of the savings bank who deposits and withdraws when he chooses in accordance with the by-laws of the bank.

Dr. Duncan's organization was also much more elaborate than exists today. The one big objection to his plan

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(1) Kniffin, Wm.H., Jr., "The Savings Bank and Its Practical Work," Chapter I, page 7, 1912, The Bankers Publishing Co.

(2) Ibid, Chapter I, page 8.





was the fact that the rate of interest to be paid to a depositor was decided upon when the depositor was accepted after having passed thorough investigation as to his age, family affairs and moral conduct. Membership was based upon character. Then, too, "depositors of three years' standing, having £5 to their credit were paid five per cent., provided they wanted to get married, while the others received but four per cent., which certainly put a premium upon marriage. After a depositor became incapacitated for labor, a weekly allowance was made out of his own savings at the option of the court of directors!"(1)

Prior to Reverend Duncan, there had been several intermittent attempts to establish savings banks; but people were not ready to accept the ideas of these far-sighted people, consequently no headway was gained and these attempts remained what they were---charitable organizations. Their sponsors had dispensed charity. To list a few: a Frenchman, Hugues Delestre, in 1610; Defoe, in 1689; in 1765, the German people of Hamburg, the first known savings bank in operation; then several more in different parts of Europe through the year 1796.(2)

Thus it was to France that the honor went for first conceiving the idea of the savings banks and then to Germany for putting into practical use and operation the idea; and finally to England goes the honor of having the first statu-

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(1)Kniffin, Wm.H.,Jr., "The Savings Bank and Its Practical Work," Chapter 1, page 9, 1912, The Bankers Publishing Co.  
 (2)Ibid, Chapter 1, page 3.



tory control of these thrift banks and so actually of creating the first "modern" savings bank.<sup>(1)</sup>

It is interesting to note that the savings bank movement is associated very largely with the names of the members of the clergy and ministers; they being the persons nearest to the heart of the people and consequently knowing best the needs of their flocks.

In the United States, the savings bank was in operation first in Philadelphia, Pennsylvania, on December 2, 1816, at the Philadelphia Savings Fund Society, a voluntary society. In February, 1819, it received its charter. However, the first legalized, or chartered savings bank is to be found in Boston, December 13, 1816, the Provident Institution for Savings. Undoubtedly, it is the oldest chartered bank in existence.<sup>(2)</sup>

These early banks had very little in the way of equipment and very frequently the personnel was unrecompensed; banking hours were but few and the bookkeeping system was the simplest type.

Their growth was due to a great need for a place for the monies received by a growing class of merchants. The people had before been chiefly interested in agriculture, turning their earnings back into their farming; but on the sea coast of New England and points south on the Atlantic Coast, there flourished sea ports with the constant influx

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(1) Sutcliffe, Wm.G. and Bond, L.A., "Savings Banks and Savings Department Management," Chapter 1, page 7, 1930, Harper & Brothers Publishers.

(2) Ibid, Chapter 1, page 11.





and outgo of sailors and merchants, who, with no profitable outlet for their monies, needed a place for depositing their accumulating funds. That is the reason why the modern savings bank flourished in the coastal cities and towns; a far cry from the religious movement it was when started in Ruthwell, Dumfriesshire, Scotland.

### Primary Purpose

The chief and primary purpose of the Reverend Duncan was, as it has been shown, to teach his parishoners to take care of themselves without aid of charity. "Planned expenditures will result in saving."<sup>(1)</sup> Those who saved regularly were rewarded with bonuses periodically. Those who were unfortunate enough to not deposit regularly were penalized; ie., there existed a "bonus and differential interest rate."<sup>(1)</sup>

Today the interest rate is considered to be a rate of dividend. The amount paid being all the earnings of the depositors' monies, after a certain amount has been set aside for operating expenses, and a certain stipulated sum been added to the Guaranty Fund for the protection of the depositors. This amount will be a certain rate of their principal monies on deposit, and therefore is a dividend as distinguished from interest paid on deposits at a fixed and predetermined rate, such as is also paid on bonds of corporations. The dividends paid by savings banks are

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(1) Sutcliffe, Wm. G. and Bond, L. A., "Savings Banks and Savings Department Management," Chapter 1, page 8, 1930, Harper & Brothers Publishers.



determined before each dividend date, from the preceding six months' earnings, in the case of an institution which pays semi-annual dividends.

The fundamental principle today is that a depositor may deposit or withdraw in whole or in part, as necessity demands, with interest (dividends) according to the time the money is left on deposit.

Today the primary purpose is "To Receive and Safe-guard the Savings of the People"<sup>(1)</sup> and to return to them all of the earnings, which it is possible to give, on a basis of equality.

## Organization

### Types of Savings Institutions

The original type of savings bank was the mutual, or non-stock, savings bank; this type, today is chiefly to be found on the eastern seacoast. (See Appendix, Exhibit

1) The stock savings bank has found great favor throughout the western part of the United States. The following admirably sets forth the difference between the two types of institutions: <sup>(2)</sup>

	<u>Stock bank</u>	<u>Mutual bank</u>
Source of original capital:	Stockholders	Loans by sponsors
Return to depositors:	Fixed interest	Net profits (all)
Management:	Directorate elected by stockholders	Trustees often self-appointed
Investments:	No restrictions	Legalized by state law
Surplus funds:	May accumulate any amount	Limited in amount
Liability:	Depositors none; Stockholders double	Depositors may be called upon to share losses.

(1) Motto of Malden Savings Bank, Malden, Massachusetts.

(2) Sutcliffe, Wm.G. and Bond, L.A., "Savings Banks and Savings Department Management," Chapt. 2, p. 20, 1930, Harper & Bros. Publishers.





The Guaranty Savings Banks flourish in New Hampshire chiefly and their chief characteristic is that they are neither a stock nor a mutual savings bank because only a small portion of the ownership of the business comes from the subscription of special deposits, which guarantee a return to the depositor. According to the New Hampshire statutes, these banks must maintain a ten per cent. special deposit to the total deposits. The function of this special deposit, as stated above, is to guarantee to the depositors a fixed rate of interest and likewise in case of liquidation one hundred cents for each dollar deposited.<sup>(1)</sup> At the end of June 30, 1936, deposits in this form of savings institution totalled \$21,829,000.<sup>(2)</sup> almost the size of a suburban mutual savings bank.

The Postal Savings Banks were created June 25, 1910, by statute in the United States. As of June 30, 1936, their total deposits amount to \$185,537,000.<sup>(2)</sup> They were apparently created for the small depositor, to furnish greater safety for his deposits; but these banks do not seem to have increased, as might be expected, perhaps due to the extremely low yield on the money invested. The rate allowed is only two per cent.

Up to the year 1910, a savings bank was established by Act of the Legislature. From now on, unless otherwise specified, "a savings bank" will mean a "mutual"

(1) Sutcliffe, Wm. G. and Bond, L. A., "Savings Banks and Savings Department Management," Chapt. 2, p. 21, 1930, Harper & Bros. Publishers.

(2) Savings Division, American Bankers Association, "Savings Deposits and Depositors," Table B, page 12, 1937, New York.



savings bank.

Inasmuch as the law governing savings banks in Massachusetts is singularly complete, constant reference will be made to these statutes, General Laws, Chapters 167 and 168.

So, after the year 1910, the men desiring to establish a mutual savings bank had to apply for a charter, which is granted by the Commonwealth of Massachusetts, through the hands of the Commissioner of Banks.

It is interesting to note, in passing, that many of the savings banks organized after the Civil War were fathered by banks of discount and intended to act as feeders to them. The alliance was so close that they often did business in the same room and with the same officers. In the year 1861, in Massachusetts, the bank commissioners (there were then three of them) recommended a separation because there were twenty-seven of them located in the same rooms with banks of discount. This recommendation is now part of the Law in the Commonwealth of Massachusetts: General Laws, Chapter 168, "Statutes pertaining to Savings Banks," Section 4:

"May not occupy Same Office with Other Bank. No savings bank shall occupy the same office or suite of offices with a national bank, trust company or other bank of discount, nor any office directly connected by means of doors or other openings in partitions with the





office or suite of offices used or occupied by any such national bank, trust company or other bank of discount. Any such corporation violating this section shall be punished by a fine of not more than five hundred dollars."

For want of a better accounting term by which to call the type of a corporation which is a savings bank, it may be called a "closed" corporation, and in the case of a mutual savings bank, one without stockholders, or the trustee type of banking institution.

The process of "incorporation" is herewith set forth according to the General Laws, Massachusetts, Chapter 168, Sections, 7, 8, 9, and 10:<sup>(1)</sup>

### "Incorporation

#### "Agreement of Association.

Section 7. Twenty or more persons who associate themselves by an agreement in writing for the purpose of forming a savings bank, may, upon compliance with this and the three following sections, become a corporation with all the powers and privileges and subject to all the duties, restrictions and liabilities set forth in all general laws now or hereafter in force relating to such corporations. Said agree-

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(1) For the provisions of other states, see the following: New York Law Secs. 24, 49 and 485; Oregon, sec. 22-2503; Minnesota, secs. 7646, 7702; New Jersey, sec. 184-14; Indiana, sec. 18-2604; Wisconsin, sec. 222.024; Vermont, sec. 6654; Maine, sec. 12; Rhode Island, chap. 270, sec. 5; Washington, sec. 3317.

References taken from the draft of suggested law, governing operation and management of mutual savings bank, by Committee for same, National Association of Mutual Savings Banks, New York, N. Y.



ment shall set forth that the subscribers thereto associate themselves with the intention of forming a corporation to transact business within the commonwealth, and shall specify:

First. The name by which the corporation shall be known.

Second. The purpose for which it is to be formed.

Third. The city or town and district thereof where its business is to be transacted.

"Each associate shall subscribe to the articles his name, occupation, residence and post office address.

"Publication of Notice, and Public Hearing.

"Section 8. The subscribers to such an agreement shall give notice to the board of bank incorporation of their intention to form such savings banks, and shall apply to said board for a certificate that public convenience and advantage will be promoted by the establishment thereof, which certificate said board may grant. Upon receipt of such application, said board shall furnish the subscribers a form of notice specifying the names, occupations and addresses of the proposed incorporators and the name and location of the proposed savings bank, and assigning a date and place for a public hearing on the application. The subscribers shall publish such notice at least once in each of three successive weeks, in one or more newspapers designated by said board, and published in or nearest to the city or town where it is desired to establish the savings bank. If said board refuses to issue such certificate, no further proceedings shall be had, but the application may be renewed after one year from the date





of such refusal, in which case notice of a public hearing thereon shall be published as herein provided.

"First Meeting of Subscribers.

Section 9. The first meeting of the subscribers to the agreement of association shall be called by a notice signed either by the subscriber to the agreement who is designated therein for the purpose, or by a majority of the subscribers; and such notice shall state the time, place and purposes of the meeting. A copy of the notice shall, seven days at least before the day appointed for the meeting, be given to each subscriber or left at his residence or usual place of business, or deposited in the post office, postage prepaid, and addressed to him at his residence or usual place of business, and another copy thereof and an affidavit by one of the signers that the notice has been duly served shall be recorded with the records of the corporation. If all the incorporators shall in writing, endorsed upon the agreement of association, waive such notice and fix the time and place of the meeting, no notice shall be required. The subscribers to the agreement of association shall hold the franchise until the organization has been completed. At such first meeting, or at any adjournment thereof, the incorporators shall organize by the choice by ballot of a temporary clerk, by the adoption of by-laws and by the election, in such manner as the by-laws may provide, of trustees, a president, a clerk, and such other officers as the by-laws may prescribe. All the officers



so elected shall be sworn to the faithful performance of their duties. The temporary clerk shall make and attest a record of the proceedings until the clerk has been chosen and sworn, including a record of the choice and qualification of the clerk.

"Issue of Certificate of Incorporation.

"Section 10. The president, and a majority of the trustees elected at such first meeting, shall make, sign and make oath to, articles in duplicate, setting forth--(a) A true copy of the agreement of association, the names of the subscribers thereto, and the name, residence and post office address of each of the officers of the company. (b) The date of the first meeting and the successive adjournments thereof, if any.

"One of such certificates shall be submitted to said board of bank incorporation, and the other, together with the records of the proposed corporation, to the commissioner of corporations and taxation, who shall examine the same, and who may require such amendment thereof or such additional information as he may consider necessary. If he finds that the articles conform to the three preceding sections, relative to the organization of the corporation, and that section eight has been complied with, he shall so certify and endorse his approval thereon. Thereupon the articles shall be filed in the office of the state secretary, who upon payment of a fee of five dollars, shall cause the same, with the endorse-





ment thereon, to be recorded, and shall thereupon issue a certificate of incorporation in the following form:

# COMMONWEALTH OF MASSACHUSETTS

"Be it known that whereas (the names of the subscribers to the agreement of association) have associated themselves with the intention of forming a corporation under the name and (the name of the corporation), for the purpose (the purpose declared in the agreement of association) and have complied with the provisions of the statutes of this commonwealth in such case made and provided, as appears from the articles of organization of said corporation, duly approved by the commissioner of corporations and taxation and recorded in this office: now, therefore, I, (name of the secretary), secretary of the commonwealth of Massachusetts, do hereby certify that said (the names of the subscribers to the agreement of association), their associates and successors, are legally organized and established as, and are hereby made, an existing corporation under the name of (name of the corporation), with the powers, rights and privileges, and subject to the limitations, duties and restrictions, which by law appertain thereto.

"Witness my official signature hereunto subscribed, and the Great Seal of the commonwealth of Massachusetts hereunto affixed, this \_\_\_\_\_ day of \_\_\_\_\_ in the year (the date of the filing of the articles of organization)."

"The secretary shall sign the certificate of incorporation and cause the great seal of the commonwealth to be thereunto affixed, and such certificate shall have the force and effect of a special charter. The existence of every such corporation not created by special law shall begin upon the filing of the articles of organization in the office of the state secretary. The secretary shall also cause a record of the certificate of incorporation to be made, and such certificate or such record, or a certified copy thereof, shall be conclusive evidence of the existence of the corporation."





No vacancies in a corporation occur unless a member dies or resigns or is asked to resign because he has failed to attend the prescribed number of meetings. The position of being a corporator, after the establishment of the bank, is one of honor; the same applies to the office of trustee.

The corporation, once organized is self-perpetuating, by the election from time to time of reputable citizens, who are residents of, or have a business interest in, the community in which the savings bank exists. The trustees are elected from the number of the corporators by the corporators, to serve, usually, three-year terms. A group of usually not less than five are elected or re-elected, as the case may be, each year after the first year of the corporation's existence, for a period of three years. The first trustees were elected in three equal groups for one, two and three years, and thereafter each succeeding year for three years each. It is most usual to have vacancies occur in the ranks of trustees only through death.

Corporators and trustees serve without compensation.

The corporators, at their annual meeting elect the president, vice presidents, trustees and the clerk or secretary of the corporation. "Elections shall be by written ballot and a vote of the majority of those present



present and balloting shall be required for election."<sup>(1)</sup>  
 The meeting of the newly elected trustees is held immediately after the annual meeting and a "board of Investment" of "six members and an Auditing Committee of not less than three members; all of whom shall be members of the Board of Trustees"<sup>(1)</sup> shall be elected. The Board of Trustees also elects the treasurer and assistant treasurer and such other officers as "may be necessary for the conduct of the business of the Bank; and shall fix the compensation of the officers."<sup>(1)</sup>

Liability of Trustees. Trustees have the general management of the bank. They pledge themselves to an upright and conscientious discharge of their duties and are not held responsible for any losses except such as might occur through their gross negligence or willful misconduct.<sup>(2)</sup>

Board of Investment. The Board of Investment of a mutual savings banks acts as an executive committee and usually exercises a general supervision and control in all matters pertaining to the interests of the bank, not provided for by the By-Laws of the mutual savings bank; they are always subject to the direction of the Board of Trustees.

<sup>(1)</sup>Malden Savings Bank, "By-Laws of the Malden Savings Bank", Article II, Secs. 2, 3; Article III, Sec. 2, page 5, 1860 (revised and amended, 1936); Malden, Massachusetts.

<sup>(2)</sup>Ibid, Article III, Sec. 3, page 6.

Note: Other contributing sources: G.L.(Mass.) Chapt.168, Secs. 11,13,14A, 15, 17,22, 23, 24, 38, 45, and 48.





Clerks, employees, etc., are hired by the officers under the approval usually of the Board of Investment; their compensation is also usually fixed by the Board of Investment.

Bank Building. Very definite instructions are given to the mutual savings bank of Massachusetts, which is indicative of other states, concerning the banking quarters of the mutual savings bank. "A sum not exceeding the guaranty fund and undivided earnings of such corporation, nor in any case exceeding five per cent. of its deposits or two hundred thousand dollars, may, subject to the approval of the commissioner, be invested in the purchase of a suitable site and the erection or preparation of a suitable building for the convenient transaction of its business. Extraordinary alterations in, or additions to, a bank building owned by a savings bank, involving an expense exceeding ten thousand dollars, shall not be made without the approval of the commissioner, and the cost of such alterations or additions shall not exceed the sum specified in this clause."<sup>(1)</sup>

Who advances the original funds for necessary organization expenses? The sponsors contribute these monies until such time as the bank can operate by itself, at which time the sponsors are re-imbursed. Little or none was required when mutual savings banks were first

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(1) General Laws, Massachusetts, Chapter 168, Section 54, subsection 11.





started in the early nineteenth century; and for a long while the operating expenses of a savings bank were negligible. Now, of course, savings banking is done on a much larger scale as may be witnessed by the many banks in New York alone with assets well in the two hundred millions; and in the course of ordinary business, provision is made for operating expenses out of earnings. Depositors realize all the profits after necessary expenses have been deducted and the stipulated amount, set aside for the Guaranty Fund, has been added thereto. Depositors, likewise, bear all the losses, which, be it said to the credit of the judgment of savings bankers, have been very small. The officers and clerks are the salaried representatives of the depositors.

The by-laws, approved by the banking department of the state in which the savings bank is incorporated, are the basis upon which the bank receives its charter and they are also the basis of the management of the bank. The law generally allows a wide latitude and banks are permitted to make their own regulations, limited only by the Statutes of the Commonwealth.

The management of the savings bank might well be summed up as follows:

Three departments of bank management--

1. Administrative: Board of Trustees, created at the time of organization and granting of charter.



- 2. Executive:
  - a. Board of Investment, having general supervision.
  - b. Officers, performing the actual conduct of the bank's affairs.
- 3. Clerical: All the remaining employees of the savings bank who perform the detailed work of running a savings bank.

On page 19 is an organization chart showing the modern savings bank's set-up. This is far more complicated than Dr. Duncan's machinery or the organizations of the early nineteenth century. But a basic fact remains; that is, the corporators were and still are substantial men, highly respected and successful, in the community where the mutual savings bank is established.

A depositor, by depositing his funds in a mutual savings bank, becomes a part owner of that bank, and, although he does not have a direct voice in the election of the corporators or trustees, by depositing his money there, he agrees to be represented by the corporators and trustees in running the bank. If the depositor does not like the way the bank's affairs are managed, he can withdraw his funds at such time and in such manner and under such regulations as are prescribed by law. These regulations shall be printed in the pass books and shall constitute the terms upon which the depositor made his deposit. The depositor thereby has a way by which to voice his disapproval.

The business of the bank is about to begin.





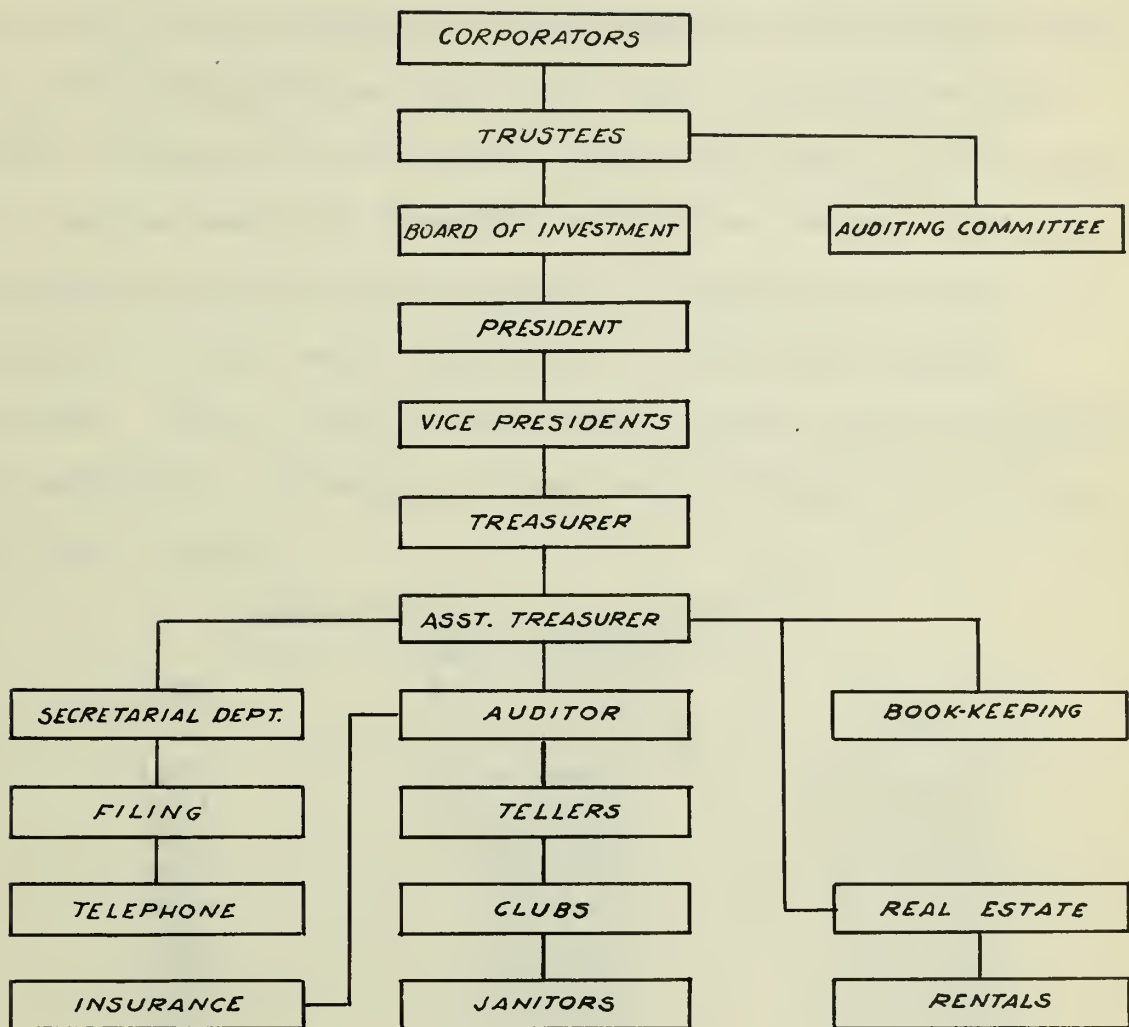


Fig. 1

Organization Chart for Modern  
Mutual Savings Bank



In order that a proper perspective of the volume of the subject matter of accounting for savings banks may be attained, the graph (Figure 2) is shown on page 22, giving the growth of deposits in mutual savings banks and the total savings deposits in all banks in the United States from 1910 through June 30, 1936. This graph and the following figures, from which the graph was made, is also given to show the need for some kind of uniform practice for the accounting methods and procedure for keeping the books of a mutual savings bank, depositors' records and general records. With so much to care for, practical and simplified, yet efficient, accounting methods would bring and do bring the best results.

GROWTH OF SAVINGS DEPOSITS (1)  
(000 omitted)

<u>Year</u>	<u>Mutual Savings</u>	<u>Total U.S. Savings</u>
1910	(in total)	\$6,835,494
1911	\$3,458,961	7,963,109
1912	3,608,882	8,404,373
1913	3,811,713	8,548,345
1914	3,910,499	8,711,975
1915	3,944,568	8,807,420
1916	4,102,481	9,459,308
1917	4,339,044	10,875,602
1918	4,381,910	11,534,850
1919	4,731,739	13,040,393
1920	5,058,282	15,188,641
1921	5,568,340	16,500,663
1922	5,817,699	17,578,920
1923	6,273,151	19,726,534
1924	6,693,247	21,188,734
1925	7,152,258	23,134,052
1926	7,525,189	24,696,192
1927	8,039,784	26,090,907

(continued)

(1) Savings Division, American Bankers Association, "Savings Deposits and Depositors", page 4, 1937, New York, N. Y.



GROWTH OF SAVINGS DEPOSITS (Continued)  
(000 omitted)

<u>Year</u>	<u>Mutual Savings</u>	<u>Total U.S. Savings</u>
1928	\$8,668,090	\$28,412,961
1929	8,903,557	28,217,811
1930	9,205,580	28,478,631
1931	10,034,022	28,219,618
1932	10,039,958	24,281,346
1933	9,760,221	21,125,534
1934	9,803,165	21,752,510
1935	9,871,523	22,614,024
1936	10,010,166	23,463,585

It is interesting to observe in the 1933 figures that whereas there was a decrease of approximately 25% in the total savings deposits of the United States, only an approximate decrease of 2% occurred in the deposits of mutual savings bank. The graph shows, too, that this decline was sharper with the total savings deposits than with the deposits of the mutual savings banks. The conclusions to be drawn might be anybody's guess, although it is safe to assume that the banking holiday, which took place in the year 1933, had much more effect upon state banks, trust companies, private banks, and national banks, than it did upon the mutual savings bank; permanent closing of mutual savings banks was negligible compared with the closing of the other types of banks.





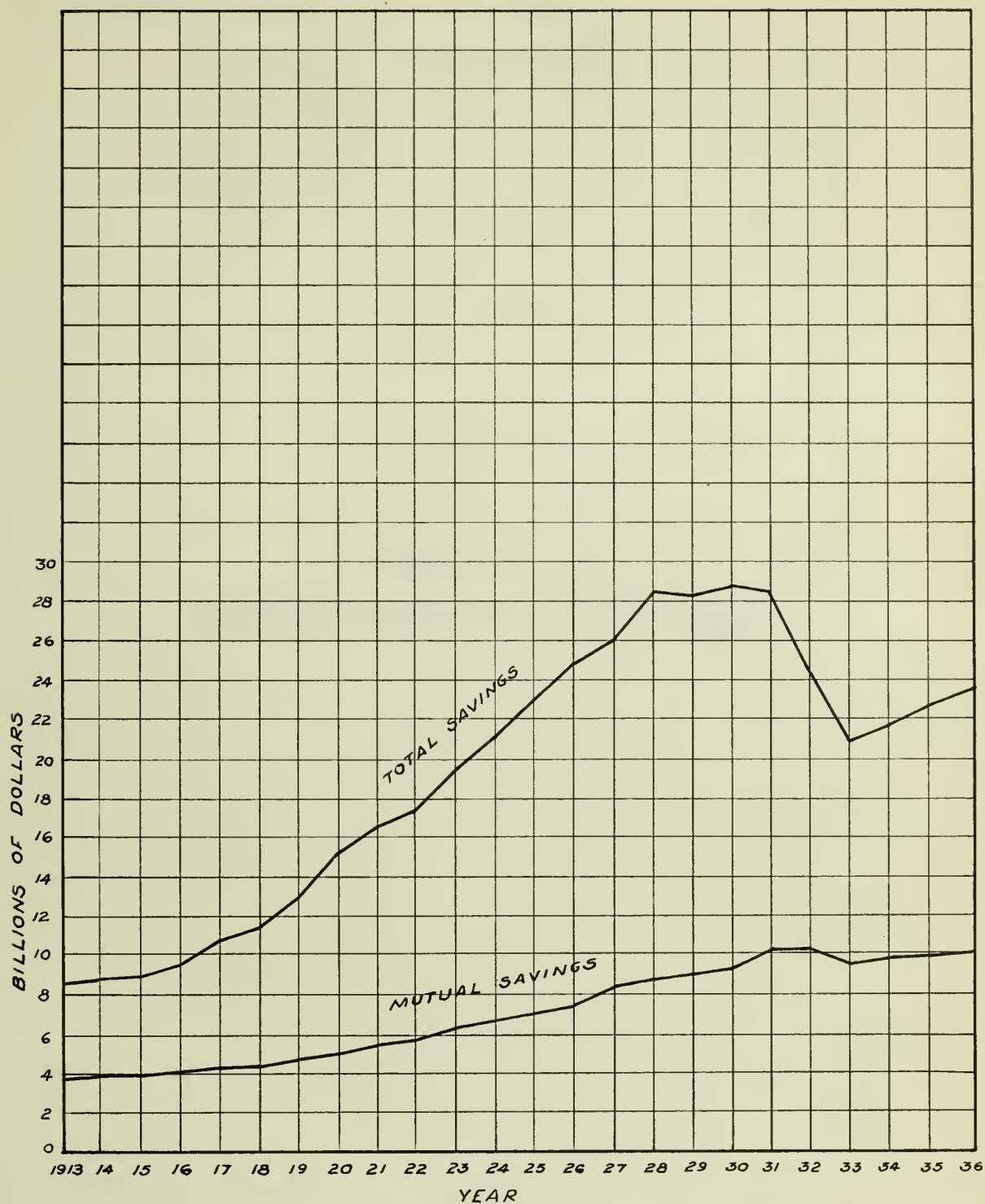


Fig. 2

Graph showing comparison of growth of deposits between the mutual savings banks and the total amount of savings in the United States.



## PART II

### ACCOUNTING METHODS FOR SAVINGS BANKS





## CHAPTER II

## ACCOUNTING PROCEDURE FOR DEPOSITORS' ACCOUNTS

Types of Accounts.

Having organized the modern mutual savings bank and prepared the way to receive its customers, it might be well to state here the kinds of accounts a modern savings bank may accept. It will be recalled that the Rev. Duncan's common accounts differed only in the purpose for which they were intended, with the rate of interest varying in accordance with the purpose; a man saving to get married received a much higher rate of interest than the one who was not saving for such a purpose.

The difference, today, is not in the treatment received by the depositors but in the very nature of the name or names on the accounts. There may be single, joint, trustee accounts, etc., any number providing the total balance does not exceed the limit prescribed by the law. On page 25 will be found the deposit limits prescribed by the laws of the different states of the United States in which mutual savings banks exist. Of course, there is no limit on the amounts which may be accepted from churches, charitable organizations or municipalities, concerning which the General Laws (Mass) Chapter 168, Section 31, says, (having just stated the limits of \$4000. on single accounts and \$8000. on joint accounts) "---but this section shall not apply to deposits by a religious or charitable corpora-



## DEPOSIT LIMITS<sup>(1)</sup>

The limitations placed on deposits in mutual savings banks by law in the various states are as follows:

California. . .	None.
Connecticut . .	Shall not receive over \$10,000. during any three-year period, exclusive of withdrawals and interest credited. No deposits of \$20,000 or over may be increased except by addition of dividends.
Delaware . . .	None.
Indiana . . .	Need not receive over \$500 in any one year unless provided in by-laws of individual bank.
Maine . . . .	None.
Maryland . . .	None.
Massachusetts	\$4,000. -- \$8,000 with accumulated dividends; joint deposits, \$8,000.--\$16,000. with accumulated dividends.
Minnesota. . .	\$5,000.
New Hampshire	None.
New Jersey . .	\$25,000, provided such amount does not exceed 10% of surplus of bank. In latter case deposits limit is \$10,000.
New York . . .	\$7,500.
Ohio . . . . .	None.
Oregon . . . .	\$5,000. --\$7,500 with accumulated dividends.
Pennsylvania .	None.
Rhode Island .	None.
Vermont . . .	None.
Washington . .	\$7,500.
Wisconsin . . .	\$5,000. Additional trust accounts may be maintained, however, provided savings banks with deposits exceeding \$1,000,000 may receive deposit not exceeding 1% of deposits.

Fig. 3

(1) This information was taken from the 1937 "Directory of Mutual Savings Banks of the United States" published by the National Association of Mutual Savings Banks, 60 East 42nd Street, New York, N. Y.





or labor union, or credit union, or fraternal benefit society, or in the name of a judge of probate, or by order of any court or on account of a sinking fund of a town in the commonwealth or of any trust fund held by a town for public uses, or of the funds of any state, county or municipal retirement or pension system or association."

A single account is what its name implies, an account in one name; deposits may be received to the limit of \$4000. (in Massachusetts) and dividends allowed to accumulate to \$8000. Only the person in whose name the account stands has any control over the account.

A joint account is an account in two names, reading, "Ronald F. Roe OR Rosamond K. Roe, Payable to Either or Survivor;" deposits may be received to the limit of \$8000. (in Massachusetts) and dividends are allowed to accumulate to \$16,000. Deposits and withdrawals are made, usually, only when accompanied by the pass book.

There is the trustee account, which will be discussed later, which is treated as a single account, insofar as deposits and withdrawals are concerned; the trustee has full control of the account.

In the case of guardianship accounts, these are treated as single accounts and only the guardian has control of the account.

Accounts, bearing the name of "fund" in its title, are handled in accordance with regulations governing the





type of account it is, whether of a charitable nature, such as "First Baptist Church, Edith S. Mosler Fund" (memorial fund), in which case the limit on the deposit is not fixed; and the deposits would be controlled by person or persons so authorized to do so by the church's trustees.

There may be accounts reading in single names or in one person's name, trustee for another, where a joint control is exercised. In such a case, the savings bank has received a notice, which it keeps on file, containing the signatures of two or more officers, any one of whose names must appear, together with the trustee's name, on all withdrawals from said account.

#### Accepted Methods of posting

Not so long ago, the most generally accepted method of handling customers' accounts in the mutual savings bank was what is known as the "hand" entry system. This hand posting system is still used today in the smaller suburban banks where overhead expenses must necessarily be kept at a minimum. However, it is the desire of the writer to bring the methods up-to-date and therefore to present the prevailing system of machine posting and manipulation of pass books.

The installation, which has found and met with great approval, is that of the National Cash Register



Company. On page 29 will be seen a photograph of the book-keeping machine for making entries of savings deposits and withdrawals (Figure 4). Briefly, this system is known as the National Unit System, whereby the entry (whether of deposit or withdrawal) is made on the depositor's pass book, (2) on the bank's ledger card, and on a journal or audit (3) sheet, simultaneously, without the use of carbons, each record being original printing. Thus three operations are under one control and made without the resetting of any numbers on the machine, only a change in the levers on the machine.

The Burroughs Adding Machine Company have what is known as the dual system, which perhaps is more adaptable to certain mutual savings banks than the unit system of the National Cash Register Company. However, for the purposes of this paper, only the mechanical bookkeeping system of the National Cash Register Company will be considered.

One must picture the inside of the savings bank building in order to visualize the procedure in handling customers' transactions. The island-formation, projecting into the foyer of the banking quarters, has proven to be the most satisfactory. There are three possible set-ups of the physical arrangement of the banking quarters for the convenience of the depositors:

. Island-formation, as mentioned above, with the





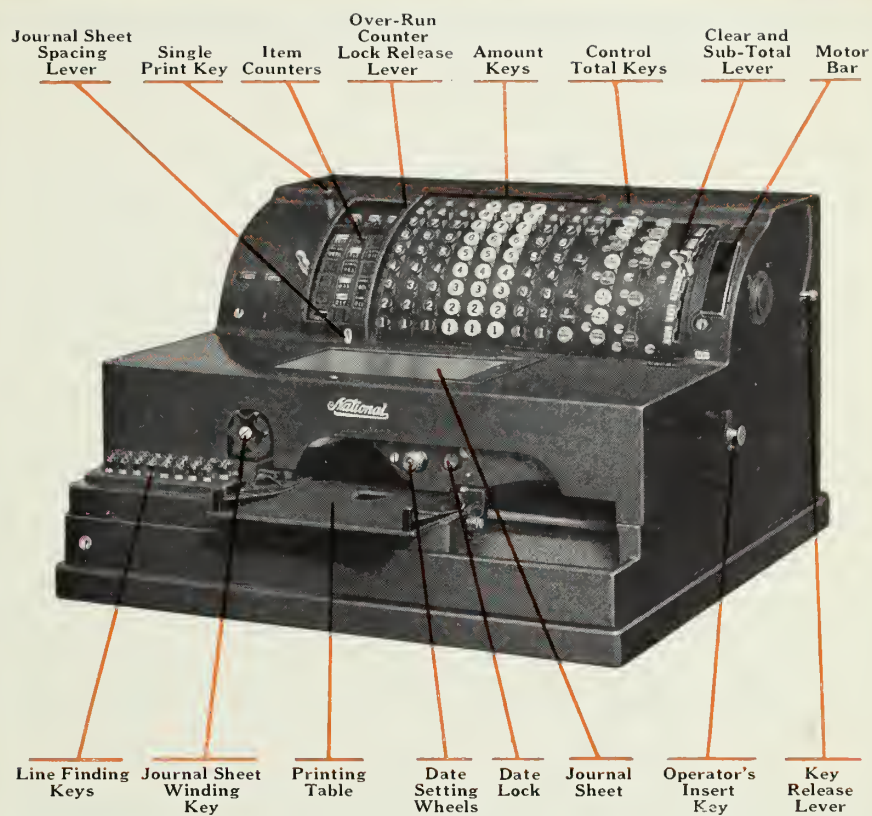


Fig. 4

National Posting Machine, Model 63



counter and grille work separating the public space from the working space of the employees.

1. Windows (grille work) in front divided to take deposits on the one hand and withdrawals on the other, with all ledgers accessible to all tellers.

2. Division of ledger cards according to number; certain sections given to designated tellers for both deposits and withdrawals.

3. All windows taking both deposits and withdrawals and all ledger cards accessible to all tellers; ledger cards being in movable trays, back of the tellers' positions.

The set-up, which will be illustrated, is the last described one (3) where all tellers may make both deposits and withdrawals and have access to all ledger cards. This system has meant more efficiency in taking care of a great number of people.

### Deposits

The deposit ticket (see page 31, Figure 5), which accompanies the money deposited, should contain the (1) number of the customer's account; (2) name of customer or names if the account is a joint account; (3) amount to be deposited and composition of that deposit, whether all bills, part bills and specie, or bills and checks or all checks; (4) the full date (month, day and year); (5) if checks are deposited, the



<i>DEPOSITED</i>			
<i>NO.</i>		<i>\$</i>	
<i>NAME</i>			
<i>BILLS</i>			
<i>COIN</i>			
<i>CHECKS</i>			
<i>TOTAL</i>			

Fig. 5  
Suggested Form for Deposit ticket

<i>\$</i> -----	
<i>RECEIVED ON ACCOUNT OF</i>	
<i>BOOK NO.</i>	
----- <i>DOLLARS</i>	
<i>SIGN HERE</i>	_____

Fig. 6  
Suggested form for withdrawal ticket





number of the bank on which the check is drawn should appear opposite the amount of the check (this is for quick reference and identification if later on it is necessary to determine the nature of the customer's deposit). Nos. 4 and 5, operations, are put on by the receiving teller.

It will be noticed that the deposit ticket is white and later on it will be noticed that the withdrawal slip is yellow. The color scheme is a matter of choice; the essential points being to have durable paper for each and to have each different color in order to easily distinguish them in the files and while working with them.

The customer has now presented his money, deposit ticket and pass book (see Figure 7, page 33) and the teller has obtained the ledger card from the ledger card files, which, in this instance, are steel constructed safes, built especially to house the ledger cards, from which the movable trays of cards are brought forth each morning to the counter on top of the safes. The position of these ledger card files is directly back of the tellers' windows and stations.

Teller AA (all the tellers under the machine system are given an identifying combination of letters and they use the key, bearing that combination of letters, when making entries on the posting machine) now inserts the ledger card (see Figure 8, page 34) and pass book into the machine on the printing table (see Figure 4, page 29), first having "picked up" in the machine the old balance; the teller now records the deposit on (1) pass book, (2) ledger card and (3) journal or audit sheet. Now appears a permanent, legible,









(NUMBER)							
(Name of depositor)							
	DATE	WITHDRAWAL	DEPOSIT	INTEREST	BALANCE	TELLER	INT. MEMO.
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
16							
17							
18							
19							
20							
21							
22							
23							
24							
SIGNATURE		(1)		(2)			
RESIDENCE							
BIRTHPLACE							
FATHER'S NAME							
MOTHER'S NAME							
DATE OF BIRTH							

Fig. 8

Form of ledger card used in the National Posting Machine, Model 63; this is the reverse side of the card, the front bearing only the signature or signatures at the foot of the card. Both 1 and 2 are used in case of a joint account.



neat record of the deposit transaction in three places which give the identical facts: the date (month, day and year--so many hand posting leave out the year and in checking old records this is very bothersome and confusing), the amount of deposit and the increased balance. What is more important and what should be reassuring to the depositor is the fact that the entry in the pass book, which he takes away with him is identical with the bank's record on the card. There is no possible chance for willful discrepancy on the part of the teller between pass book and ledger card. The record of the transaction made in the third place, on the journal or audit sheet, is under the control of the auditor of the bank, who holds the key which unlocks the machine to be cleared each night, at which time, the teller's journal sheet is removed by the auditor. This journal sheet rolls from a bottom spool to another just above it as the daily transactions take place. It is the auditor's duty to clear all machines at the end of a day's work and to keep the machines locked against manipulation at all times. More will be given later concerning his duties.

Most inexperienced tellers and even some experienced tellers make errors at some time during their careers, either in putting the wrong amount in the machine for the deposit or withdrawal or the wrong old balance or depressing the wrong key. All errors have to be rectified by the auditor and his personal initials appear on the correction



wherever made.

### Withdrawals.

Again, it is the ideal to have the customer make out his or her own withdrawal slip, which he obtains from the holders of white and yellow tickets in front of the counter at the window (teller's) or at the convenient writing tables provided in the lobby of the bank, with writing materials and any current advertising literature.

The withdrawal ticket (see Figure 6, page 31) should contain the amount desired, first in figures (1) at top of the ticket; (2) the number of the account at the left top of the ticket; (3) the amount desired written in full; and (4) most essential, the signature of the customer, as the payment ticket is really a receipt for the bank's files that so much money has been paid to the customer; (5) the date is often filled in by the teller.

Withdrawals are made only upon the signature of the customer, whose account it is, whether by the signature upon the withdrawal ticket or by an order signed by the depositor and presented with the pass book by a third person. The order must be addressed to the mutual savings bank, must bear the date, amount desired in figures and writing, pass book number, and the signature of the owner of the account, as well as a witness, which must be a person other than the one to whom the bank has been requested to pay the funds. The withdrawal ticket is then signed by the person who is to draw the money for the bank's customer. The following is an example of





the wording which may be found on an order form:

\$_____	Date_____
TO THE MUTUAL SAVINGS BANK, Lynn, Mass.	
Pay to _____or bearer	
_____Dollars	
from my deposits, Book No._____	
Sign here_____	
Witness_____	

The order should be written in ink and in case the full amount on deposit is wanted, the the words, "Full Amount" or "The Whole Amount" should appear on the line with "Dollars."

There is a special withdrawal order to be made out by a customer who is too ill to come in person to the bank, (and this fact of illness is known to the teller); this special form, which appears on the reverse side of a withdrawal order, is to be filled out and signed by the physician in attendance of the customer and witnessed by a third person. The color of this withdrawal order is different from the regular order for the purpose of call-



ing the attention of the teller to the circumstances surrounding this particular payment of funds. This is a precautionary measure taken by the bank merely to protect both itself and its depositor; the bank wishes some evidence that the person, who is ill, does know what he or she is doing when asking for funds.

The following is the suggested special form mentioned in this connection on page 37:

#### PHYSICIAN'S CERTIFICATE

Date\_\_\_\_\_

I hereby certify that I saw the within  
named \_\_\_\_\_  
affix his (or her) signature mark upon the  
within order, that I read said order to  
him (her) and that in my opinion he (she)  
was at the time of sound mind, and under-  
stood what he (she) was doing, and wished  
said order to take effect.

Sign here,

\_\_\_\_\_  
Physician in Attendance.

Witness \_\_\_\_\_

Received under the within order from  
the Mutual Savings Bank on account No. \_\_\_\_\_  
\$ \_\_\_\_\_





All signatures of the customers, on ticket or withdrawal orders, should be checked with the signatures appearing at the foot of the ledger card.

Teller AA, between his busiest moments at the window, can very quickly and profitably be dating his tickets and sorting both the deposits and withdrawal slips, covering his transactions for the day, according to the account number. He can also be sorting his ledger cards numerically according to account number. This means that when one or two o'clock (depending upon the hours fixed for the banking institution) arrives in the afternoon, some one teller balances in order that his or her machine may be cleared to take the transactions dated the succeeding day in order to allow, in turn, the remaining tellers to balance while the bank is still open to the public. This is only done when it does not interfere with any interest date, such as the first, the tenth or the fifteenth of the month as the case may be. It greatly facilitates the proving of the day's work, which is done after banking hours.

The day's posting is now completed, and the tellers have balanced their cash. The total deposits and withdrawals reported by the tellers in their cash figures must agree with the readings of the machine.

After the cash is balanced the auditor takes off the day's totals on the Auditor's Totals form (See Figure 9, page 40). The remainder of the activity of proving the



## AUDITOR'S TOTALS REPORT

UNIT <u>A-D</u>		AUDITOR'S TOTALS			AUDITOR <u>J.A.E.</u>	
LN	ITEMS	SYM	DATE	REMARKS	MACHINE TOTALS	TOT. SYM
1	A-DEPOSIT	A	FEB12-33		*4623.29	A A
2	A-DEPOSIT CORR	AC	FEB12-33		****0.00	B A
	NET				4623.29	
4	B-DEPOSIT	B	FEB12-33		*2675.40	B A
5	B-DEPOSIT CORR.	BC	FEB12-33		****0.00	B A
	NET				2675.40	
	TOTAL NET DEPOSITS				7298.69	
8	A-WITHDRAWAL	A	FEB12-33		*1481.00	A A
9	A-WITHDRAWAL CORR.	AC	FEB12-33		****0.00	B A
	NET				1481.00	
11	B-WITHDRAWAL	B	FEB12-33		*1306.60	B A
12	B-WITHDRAWAL CORR.	BC	FEB12-33		****0.00	B A
	NET				1306.60	
	TOTAL NET WITHDRAWALS				2787.60	
14	A-DUP. DEPOSIT	AD	FEB12-33		***75.25	B A
15	B-DUP. DEPOSIT	BD	FEB12-33		***46.90	B A
16	INTEREST CREDIT	IN	FEB12-33		**163.02	B A
17	OLD BALANCE	OB	FEB12-33		198376.59	B A
19	TOTAL DEPOSITS	TD	FEB12-33		*7298.69	B A
	CORRECTIONS					
	TOTAL NET DEPOSITS				7298.69	
22	TOTAL WITHDRAWALS	TW	FEB12-33		*2787.60	B A
	CORRECTIONS					
	TOTAL NET WITHDRAWALS				2787.60	

CLEAR TOTALS ON THIS FORM

ITEM COUNTER DETECTOR 1983 JOURNAL SHEET DETECTOR 1526

AUDITOR'S CONTROL DETECTOR 1605

Fig. 9

Auditor's Totals Report with figures



day's work can best be stated in the words of the Instruction Book, accompanying the National Posting Machine, Model 63.

The Auditor's Totals form "is inserted into the machine with the Single Print Key locked down and the machine totals are cleared on the lines as indicated. The printing table is then locked in the "home" position.

"All deposit and withdrawal slips and affected ledger cards" have been "sorted numerically.

"Run Old and New Balances: The old and new balances, as shown on the ledger cards, are now run, recording the old balances in the Old Debit Proof Key and the new balances in the Credit Proof Key. At the end of each control, pull the lever down to the balance position and depress the motor bar. By so doing we have printed the difference between the old and new balances for that control. In running this old and new balance proof no attention need be paid to ringing of the bell. If the total of the old balances for any control is greater than the total of the new balances, the difference between the old and new balances as shown by the machine will be an overdraft. If the work is correct the same amount will appear as the difference between the deposits and withdrawals on the deposit and withdrawal proof run for that control. Space the Journal sheet between each control with the Journal sheet winding key.





"List Deposits and Withdrawals: List the deposits and withdrawals as shown on the deposit and withdrawal tickets, by controls. The deposits are run into "A" Duplicate deposit key, and the withdrawals are run into "A" Duplicate withdrawal key. The spacing lever must be set to "SPACE" when running this proof. At the end of each control clear the totals. This will give the total deposits and withdrawals for each control. Also at the end of each control bring the lever down to the balance position and press the motor bar. This will give the difference between the deposits and withdrawals for each control. This figure must agree with the difference between the old and new balances for this control. The amount may be a whole number, indicating an increase in the control; or, it may be an overdraft, indicating a decrease in the control.

"When beginning to list the old and new balances, as well as the deposits and withdrawals, each control can be numbered on the Journal sheet by using the account number key and numbering them consecutively. This need be done only on the first and last item of each control." (1)

This work of listing is sometimes done on a different bookkeeping machine entirely than that which has done the posting all day. The results are the same. In case another machine is used, the form on which the machine work is done is shown on page 43, Figure 10.

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(1) The National Cash Register Company, "How to Use Your National Posting Machine for Savings or Thrift Accounts," page 14 and 15, 1937 edition, Dayton, Ohio.







"How to Locate an Error: Compare the differences between the old and new balances on each control with the differences between the deposits and withdrawals to see that they agree. If they agree, it is proof that the work has been posted correctly. If they do not agree, it either means that the proof has been run wrong, or that there has been an error in posting. A way to find either one of these mistakes is to mentally compute the difference between the old and new balance shown for each account in the control on the proof run. This must equal the amount of the deposit or withdrawal for that account as shown on the deposit and withdrawal proof run. Other methods of checking out the error are: check deposit and withdrawal tickets against the deposit and withdrawal proof run---and, check the old and new balances as shown on the ledger card against the old and new balance proof run. If the controls do not exceed 1,000 cards to a control, there will never be a large number of cards affected each day in each control, and it will take but a few minutes to locate any differences that may exist in the proof.

"After all cards have been listed, the difference between grand total old balances and grand total new balances should equal the difference between total deposits and total withdrawals. The totals shown in the 'A' Duplicate deposit and 'A' Duplicate withdrawal keys, on the proof run of tickets, re-capped, should agree with the total deposits and total withdrawals cleared from the machine while posting.





"Post control figures to the ledger control cards from the deposit and withdrawal ticket proof run, after the auditor has accepted proof and unlocked printing table.

"Refile all affected ledger cards.

"File deposit and withdrawal tickets. File machine Journal sheet, together with ticket and card proof sheets in Journal sheet file (or in case of the bookkeeping sheets, place chronologically in a loose-leaf binder). Be sure to date all material so filed."<sup>(1)</sup>

The following is a list of some of the duties of the auditor:

"Prepare the Machine for the Next Day:

"See that the following things are done:

- a. Machine cleared and locked.
- b. Date wheels on machine set ahead and date knobs locked.
- c. Keys turned over to auditor or other authorized person. (In most cases, it is practical to have the keys at all times in the possession of the auditor.)
- d. Item counters reset.
- e. Show sub-total, (zero) of each control key in rows 2 and 3 as first items on Journal sheet for following day.

"The Auditor's Totals report shows a copy of the Journal sheet totals for filing in a ring binder. This

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(1) The National Cash Register Company, "How to Use Your National Posting Machine for Savings or Thrift Accounts," page 15, 1937 edition, Dayton, Ohio.



form is inserted on the printing table. The Single Print key is locked down. The auditor then clears the totals from the machine, making certain that he prints the totals on the proper line on the form. Two copies of the auditor's totals form may be printed where required. One copy conforms in length to the ledger card, the other to the pass book."<sup>(1)</sup>

All ledgers and their cards are in constant daily balance.

The daily cash balance slips (see Figure 11, page 47) are given to the head bookkeeper, who is also the head of the Mortgage Interest Department and has charge of the general books of the savings bank.

The auditor usually has charge of the making out of checks for customers. This is an ever increasing volume of service to customers and in some banks, only two or even one check is given free and a charge of five cents is made for each additional check.

The auditor also has control of the funds - specie and bills - with which to supply the tellers and consequently he also has a report to submit to the head bookkeeper as to the amount of cash he has on hand.

We will be ready to follow the accounting procedure through to and for the main books, after a few words as to the following:

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(1) The National Cash Register Company, "How to Use Your National Posting Machine for Savings or Thrift Accounts," page 15, 1937 edition, Dayton, Ohio.



TELLER _____		DATE _____	
BALANCE ON HAND			
DEPOSITS			
PURPOSE CLUB			
XMAS CLUB DEPOSITS			
CHECKS DRAWN			
<hr/>			
BILLS			
SPECIE			
CHECKS			
DEPOSIT			
PAYMENTS			
TO TELLER			
<hr/>			

Fig. 11

Daily cash balance slip.





1. New accounts
2. Transfers
3. Trustee accounts
4. Organization accounts
5. Loss of pass books
6. File for tickets and care of closed cards;  
and indices.

1. New accounts. Information concerning and the signature of the new customer are now placed directly upon the ledger card, under the machine system. The identification material is neatly typewritten on the lower back portion of the card and the name is typewritten at the top of both sides of the ledger card, on which the number has already been affixed. (see Figure 8, page 34) The signature, or signatures in case of a joint account, are affixed to the lower front section of the card. In cases where the other person to a joint account, or another person than the future owner of the account opens the account for him, are absent, then a slip, duplicating the information desired (which is listed at the foot of the back of the card) and gummed, is given to the person present to procure the necessary information and signature of the absentee; upon receipt of the completed slip, it is pasted to the card, information typewritten as required, and the pass book then given or mailed to the owner or owners.

In the cases of very active accounts, where the cards fill up soon with transactions, it is an easy matter



to obtain the person's signature on a new ledger card. Customers, when pleasantly approached, are only too willing to keep the records concerning themselves up-to-date. Handwriting changes and in this way the teller has a more efficient way of checking signatures for withdrawals; new addresses are watched for and changing names in the case of ladies marrying.

New customers of the mutual savings bank should be given a copy of the By-Laws of the bank and a copy of the last published statement of the financial condition of the institution. These pamphlets will usually take care of most of the expected and ordinary questions. At least, they are the right of the prospective part owner in this business of our mutual savings bank.

2. Transfers. It is advisable to make transfers only in the case of making a single account a joint account. Due to the desire of attempting to keep methods of procedure as simple and easy as possible for the customer, it has become the increasingly good habit to close the account, if it is a joint account to be made single (through the death of one person or changing of the desires of the customers) and open a new account without loss of interest in the desired name. (See Appendix, Exhibit 2, for acceptable form for the making of transfers; witness must be a notary public or a bank official)





3. Trustee accounts. Anybody may open an account, as trustee for another and only the signature of the trustee is required; however, according to General Laws, Massachusetts, Chapter 168, Section 34, "If Deposit is made in Trust, Name and Residence of Beneficiary to be disclosed. If a deposit is made with such corporation by one person in trust for another, the name and residence of the person for whom it is made shall be disclosed, and it shall be credited to the depositor as trustee for such person. Payments may be made to the trustee; and if no other notice of the existence and terms of a trust has been given in writing to the corporation, in case of the death of the trustee the amount then on deposit, with the dividends thereon, may be paid to the person for whom such deposit was made, or to his legal representative, or, if such deposit does not exceed two hundred dollars, it may be paid to a minor or to either of the parents of such minor. All payments made in accordance with this section shall be valid payments."

4. Organization accounts. The important thing to remember about organization account, is this: the signatures of the officers are required, accompanied by a certified vote of the organization at a stated meeting, giving the conditions upon which withdrawals may be made and over whose authorized signatures. The opening of these accounts, other than not requiring the full identification of the persons, and of requiring a copy of the by-laws, if obtainable, is just the same as for any regular new account.





5. Loss of pass books. On page 52 is the form (Figure 12) usually used for the customer's application for either a new pass book, or the payment of the funds from the old, in case he or she has lost his or her pass book.

There is a cost of \$1.50, usually, for the advertising of the loss of the pass book; the advertisements take place one each week for three weeks; at the end of the fourth week from the first advertisement, the duplicate pass book may be issued, provided no information concerning the lost one appears.

6. File for tickets and care of closed cards; and indices. Ledger cards are kept in movable trays, as aforementioned, which are placed in the stationary vault (directly under the ledge supporting the trays in the daytime) each night and brought out each morning. The file cards for open accounts, the indices, showing the customer's name, address and date the account was opened, as well as the number of the account, are filed in the vault, usually, according to the customer's name. Closed indices are kept permanently, as well as the closed ledger cards, in another vault, along with the records of bundled deposit and withdrawal tickets. File cards are according to name; ledger cards according to number and deposit and withdrawal tickets according to date and year.



Date

The undersigned hereby certifies that  
is the owner of Account No. \_\_\_\_\_, standing in the name of  
\_\_\_\_\_, in the MALDEN SAVINGS  
BANK for \$ \_\_\_\_\_, and that the passbook representing the  
account has been lost or destroyed.

The undersigned hereby applies (for the issue of a new book  
representing the Account No. \_\_\_\_\_) or (for the payment to  
\_\_\_\_\_ of the amount of the account),  
certifies that the statements above set forth are true and authorizes the  
Malden Savings Bank, in accordance with the provisions of the law, to  
advertise that the passbook is lost or destroyed.

Sworn to before me

---

Justice of the Peace

I hereby certify that in accordance with the above application the  
attached notice of the loss or destruction of the passbook therein de-  
scribed was published in the \_\_\_\_\_, a news-  
paper published in the City of Malden, publications having been made  
on the \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_.

I further certify that the book advertised as above set forth as  
lost or destroyed, was not presented to the Bank within thirty (30) days  
from the date of the first publication above referred to and that on this  
day (Book No. \_\_\_\_\_, standing in the name of  
\_\_\_\_\_, showing a deposit of \$ \_\_\_\_\_. was delivered  
to \_\_\_\_\_;) (the amount of the deposit,  
\$ \_\_\_\_\_, was paid to \_\_\_\_\_,) in  
accordance with receipt on file.

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Figure 12

Application for loss pass book advertisement,  
by courtesy of the Malden Savings Bank



### CHAPTER III

#### ACCOUNTING PROCEDURE FOR MAIN BOOKS OF BANK





## CHAPTER III

## ACCOUNTING PROCEDURE FOR MAIN BOOKS OF BANK

Statement of condition (1)

The first thing which will be noticed about the statement of condition of a mutual savings bank will be the difference in arrangement of the items on the balance sheet, (strictly speaking, it is not a balance sheet inasmuch as it contains items of income and expense) of the mutual savings bank as compared with the balance sheet of almost any other type of banking institution, and particularly a statement of condition, which is a balance sheet, as made up by accountants for the same mutual savings bank. The accountant's form of balance sheet is on page 144.

The method used in this chapter to give some idea of the accounting necessary to keep the mutual savings bank's books is the following: the items on the statement of condition (see Figure 13, page 55) will be briefly discussed in the order of their appearance and the forms involved in the keeping of their records will be referred to and the sample forms, themselves, will appear in the appendix as numbered.

General Ledger Accounts.

Deposits. This is a controlling capital liability account and represents the amount the bank owes to its depositors. The items "Christmas Club Deposits" and "Purpose Club Deposits" also represent amounts due to the

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(1) See Page 55, Figure 13



## MUTUAL SAVINGS BANK

Statement of ConditionMarch 10, 1937LIABILITIES:

Deposits	\$	_____
Christmas Club Deposits		_____
Purpose Club Deposits		_____
Interest (income account)		_____
Discount		_____
Sundry Income		_____
Guaranty Fund		_____
Profit & Loss		_____
Reserve		_____
Real Estate--Rents and Expenses		_____
Due Mortgagors		_____
Suspense Account		_____
Federal Old Age Retirement Fund		_____
Federal Unemployment Compensation Fund		_____
Mass. Unemployment Compensation Fund		_____

TOTAL LIABILITIES

\$  
=====RESOURCES:

Loans on Mortgages	\$	_____
Bank Stock		_____
Federal Land Bank Bonds		_____
Public Funds		_____
Public Utility Bonds		_____
Railroad Bonds		_____
Telephone Bonds		_____
U. S. Government Bonds		_____
Personal Loans		_____
Deposit Insurance Fund		_____
Due from Central Fund, Inc.		_____
Securities Acquired		_____
Real Estate by Foreclosure		_____
Real Estate in Possession		_____
Taxes & Ins. Paid on Mort. Prop.		_____
Expenses		_____
Bank Building		_____
Real Estate--Rents & Expenses		_____
Furniture & Fixtures		_____
Unexpired Insurance Premiums		_____
Cash on hand and in Banks		_____

TOTAL RESOURCES

\$  
=====



customers. The accounting procedure for the handling of the deposits was discussed at length in Chapter II. Deposits in total and withdrawals in total are posted to this controlling account daily, the balance always showing the bank's liability to its depositors.

Interest. This account represents the amount of income received from the three principal sources of income, namely, interest on bonds, dividends from stocks, interest on mortgages, and on the monies in depository banks. (See Exhibit 3 in the Appendix for the form used to take care of income items from these sources.) Interest from the bonds is credited monthly when coupons are cut and submitted for collection; likewise dividends, when payable, from certain bank stocks and stock acquired through the calling of a personal loan. Mortgage interest is usually payable quarterly; but most people are endeavoring these days to pay whenever they can, consequently there will probably be interest received to post every day.

Discount. This account represents interest paid in advance on personal loans.

Sundry Income. This account represents interest received on various items such as taxes paid for the mortgagors and interest on special checking accounts of the





depository banks.

Guaranty Fund. This account represents the net surplus funds available for the protection of the depositors. Additions are made to this account upon the vote of the Trustees. General Laws of Massachusetts, for example, Chapter 168, Section 45, states the following provision concerning the mutual savings bank's guaranty fund:

"The trustees shall, immediately before making each semi-annual dividend, set apart as a guaranty fund from the income which has accumulated during the six months last preceding not less than one eighth nor more than one fourth of one per cent of the whole amount of deposits, until such fund amounts to seven and one half per cent thereof, and no additions shall be made to it when it amounts to seven and one half per cent, or more, thereof. Such fund shall thereafter be held to meet contingencies or losses in its business from depreciation of its securities, or otherwise. When such fund amounts to less than seven and one half per cent of the whole amount of deposits, no losses shall be met therefrom except upon written approval of the commissioner."

Profit and Loss. This is the regular account for periodic summarization, usually monthly. No current entries are made therein.

Real Estate--Rents and Expenses. This account will have a credit balance when the expenses have exceeded the income from rents of property owned by the bank. It is the controlling account for all activity relative to the bank's property, formerly property owned by the mortgagors. rehabilitation expenditures, repairs, rent and other income go into this account; but it is considered to be an asset or liability account--liability if there is a credit balance and asset if



there is a debit balance.

Due Mortgagors. This account represents amounts not yet paid on balances due to the mortgagors in case of new loans or construction loans. In the case of construction loans, a given percentage of the total amount to be loaned is paid to the mortgagor at the inception of the loan; as the work progresses, more funds are paid, until finally the building being completed, the balance of the funds due are turned over to the mortgagor.

Suspense Account. Funds not yet paid to the mortgagors in cases of fire losses to their respective properties are placed in this account and the amounts are the bank's liability to the mortgagors. When the necessary repairs to the properties have been made, then the funds are paid out to the owners of the properties.

Federal Old Age Retirement Fund.

Federal Unemployment Compensation Fund.

Massachusetts Unemployment Compensation Fund.

These funds are more or less self-explanatory; they are funds set up to take care of the bank's portion of the taxes imposed by law under the Social Security Act, as well as to include the funds deducted from the employees' wages for this purpose, also in accordance with the law. These funds automatically cancel themselves over a given period of time; quarterly payments and reports are now required by the employers whose duty it is to send their portion and that which has been





held by the employers as the employees' contributions.

## RESOURCES

Loans on Mortgages. This is a controlling account and represents the amount of loans for which mortgages have been received as security. For the suggested form for keeping a record of the mortgage loan, reference is made to Exhibit 4 in the Appendix; and Exhibit 4A. Interest payments and principal payments are also endorsed on the reverse of the mortgage note.

The following is an outline of procedure in connection with loans on mortgages:

1. Application for a mortgage loan is made and an inspection of the property by two or more members of the bank's board of investment carried out.
2. At the next meeting of the board of investment, the application is either accepted or rejected. If accepted, the proper papers are drawn by the bank's lawyer, recorded and the necessary records at the bank set up; insurance policies are adjusted.
3. It is likely that principal and interest payments quarterly have been made part of the conditions of the loan; adequate methods for checking up the amortization of the principal and the prompt payment of interest should be used.





4. The Commissioner of Banks requires that at least two or more members of the board of investment shall make periodical inspections of the properties upon which they hold mortgages. After they have once made an inspection of the properties, it can be determined at that time whether or not certain properties need inspection every one, two or three years; the revaluation cards,<sup>(1)</sup> one prepared for each property, can then indicate the next year for revaluation. Also written on these cards are either comments that the loan is all right as it is, or that repairs or more amortization of the principal are needed.

5. Some banks now have one of their employees devoting all his time to checking up the payments of the mortgagors' property taxes to the respective cities. Mortgagors are being asked to submit their most recent "paid" tax bills.

All of this is in the best interests of the mortgagors, as well as of the mortgagees, who represent the depositors.

Bank Stock. Savings banks are limited by law as to the amount of investment they can hold in any banking association ; each state having its own set of rules. In Massachusetts, the limit, with other provisions, is two and one half per cent of the bank's own deposits.

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(1) See Appendix, Exhibit 4B



All Other Investments (including Federal Land Bank Bonds, Public Funds, Public Utility Bonds, Railroad Bonds, Telephone Bonds and United States Government Bonds).

These controlling accounts record the book value as distinguished from market value of the securities owned by the bank. "Book value" in this case does not necessarily mean "par value." "Book value" as nearly as possible should be the cost of the securities in question. At the time of sale of a security would be the time to take the profit or loss through the profit and loss account.

It would be conservative to enter a security, which had been purchased at a premium, on the books at par value and to set up a bond premium account and write off during the life of the bond or the time held, the amount of the premium. Should the bond be sold before maturity, then the balance in the premium account allocable to that particular bond could be charged against profit and loss; at that time either lessening the profit on the sale or, if sold at a loss, increasing the loss.

It is considered more conservative practice not to "write-up" the bond discounts, but to take either profit or loss at the time of selling the bond.

When interest is received on each bond, registered or coupon bond, "Cash" is debited and the "Interest" account



is credited; a memorandum is made on the reverse side of the card record to indicate payments of interest. It is the bank's duty, just as it would be an individual's duty to cut coupons when due and payable and present them for collection through a banking agency.

Repeated examinations as to quality and marketability of these securities is to be desired. Often a semi-annual or an annual inspection is sufficient for complete written comparisons, although daily checking with the market is essential. The written "check-up" can be effected by comparing cost or book value with the current market values, using quotations secured from two or three reliable and conservative brokerage houses.

See Exhibit 5 in the Appendix for an investment record card; the one given illustrates a card for United States Government Bonds. The set-up of the other securities is similar.

Chapter IV will hold a further and more detailed discussion and study of the methods and requirements, giving comparisons, concerning investments by mutual savings banks.

Personal Loans. This account is a controlling account for three different kinds of loans which may be made by a mutual savings bank to individuals:

(1) personal loans made with collateral (such as stocks





or bonds), (2) personal loans made until dividend day, in order to save the person from losing his or her dividend in its entirety; the rate charged on this type of loan is usually  $1\frac{1}{2}\%$  more than the rate of the dividend paid at the previous dividend period; (3) pass book loans are those loans made to the depositors of the mutual savings bank against his or her pass book with that mutual savings bank and the rate charged is usually 5% to 6%; these loans may be made for three-month periods and if satisfactory may be renewed. See Exhibit 6 in the Appendix for a form of the card used to keep a record of the Personal Loan made with stocks or bonds as collateral.

Deposit Insurance Fund. This fund was created by act of the legislature of the Commonwealth of Massachusetts in 1933 to insure the deposits in the mutual savings banks of Massachusetts. Original assessments were made and one or two subsequent ones, to establish the monies for the fund; no additional assessments have been made for over a year.

Due From Central Fund, Inc. This fund represents deposits made by the mutual savings institution in accordance with the Statutes of the Commonwealth of Massachusetts, whereby a fund was created to establish liquidity in the mutual savings banks that might be in need of cash. Through the assistance of this fund, mutual savings banks are given the advantage of borrowing against their assets, such as



first mortgages, government bonds and other legal investments. Dividends have been received on this asset during a year at the rate of 2 per cent. per annum.

Securities Acquired. This account represents securities acquired in settlement for indebtedness and they are treated in the same manner as the bank's investments.

Real Estate by Foreclosure.  
Real Estate in Possession.

These accounts are controlling accounts and represent properties acquired at foreclosure and other properties to which only entry has been made (possession). A subsidiary ledger (See Appendix, Exhibit 7) takes care of all transactions concerning the properties so taken.

The following is a discussion of accounting for real estate by foreclosure and in possession given by Mr. Horace A. Mann, C. P. A., Charles F. Rittenhouse and Company: <sup>(1)</sup> "The considerable increase in holdings of real estate by foreclosure by many savings banks in the past few years has created the need for revision and expansion of accounting records and office procedure. Records pertaining to this real estate should serve a two-fold purpose: first, to provide analyses which will furnish bank officers and trustees with information concerning the make-up of changes during a fiscal period and show the trend of such changes; and second, to facilitate the progress of the audit of such

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(1) Mann, Horace A. C.P.A., Charles F. Rittenhouse & Company, "Accounting for Real Estate by Foreclosure," in November, 1936 issue of "SAVINGS BANKER", Vol XV, No. 11, pages 1 & 2; 1936, The Savings Banks Association of Massachusetts, 80 Federal Street, Boston, Mass.





records. These real estate holdings have greatly increased the volume and extent of savings bank audits and the cost thereof, particularly in the case of banks which are rehabilitating properties with a view to enhancing their value for purposes of sale or rental. This is due both to the volume of transactions and to the requirement of the Commissioner of Banks that a detailed check be made of all expenditures and income pertaining to the properties.

"A study of the ledger accounts for real estate by foreclosure and real estate in possession alone, or a comparison of the balances at different dates will not provide information necessary to a proper understanding of the changes which have taken place during the period. Since all expenditures and receipts pertaining to these properties are added to and deducted from the book value of the properties, the changes in any period may comprise a mixture of properties foreclosed, properties sold, expenses of rehabilitation and operation and rental income. The officers of the bank responsible for the handling of this real estate will be greatly assisted if records are maintained which permit a breakdown of these changes into some such classification as follows:

Additions:

- Loan balances of properties foreclosed;
- taxes paid;
- expenditures for rehabilitation and operation (a separation between the two, if desired);

Deductions:

- Sales or disposals;
- Possessions released;
- Write-downs in value;
- Rental income.





"Records designed to provide such analyses will also facilitate the progress of an audit. If the number of parcels held by foreclosure is large or if there is considerable activity because of reconditioning and rentals it will generally be found advisable to maintain a separate cash book for such transactions, subsidiary to the general cash book. (See Appendix Exhibit 8) This subsidiary record will contain all entries for expenditures, receipts and adjustments which pertain to real estate by foreclosure and in possession, with only daily totals carried to the general cash book. This will remove all of the detail incidental to real estate operation from the general cash book and enable the auditors to verify these detailed transactions without interruption to the general bank audit procedure. A similar separate cash book may be used for taxes and insurance paid on mortgaged properties and repayments of the same if the volume of such transactions warrants it. An individual property record (See Appendix, Exhibit 7) is also advisable for each parcel of foreclosed property, to which postings are made from the subsidiary cash book. The total of these individual property record sheets will equal the balance of the real estate by foreclosure account (in the General Ledger).

"Audit procedure can also be facilitated by the arrangement and filing of the following records and data pertaining to real estate by foreclosure and in possession:

- (1) Documents and insurance policies;
- (2) Vouchers for expenditures;
- (3) Records of rental collections;
- (4) Minutes of meetings.



"(1) Documents and insurance policies: If deeds (original mortgage, entry to possess and foreclosure or other deed) and fire insurance policies are filed together in proper envelopes, in order of properties as shown by the foreclosure property record, inspection of these documents may be much more rapidly made. Correspondence or other data showing the location of deeds out for registry or legal attention is also logically filed here.

"(2) Vouchers for expenditures: These may well be filed in individual folders for each property, in order of payment, with proper approval noted thereon, if not approved in detail in the minutes. The Acco type of fastener, inserted through a manila folder, holds the vouchers securely and provides for expansion and easy removal for reference. The folders again should be filed in the order of properties in the foreclosure property record.

"(3) Records of rental collections: The individual sheet for each parcel in the foreclosure property record should indicate clearly the type of property and the number of rentable spaces such as number of apartments, garages or whether a single, two or three family house. A separate sheet or card is generally advisable for a detailed rental record of each apartment or suite, showing the tenant, rate of rent and date of occupancy and departure. Rent receipts numbered in sequence and printed in duplicate or triplicate are also advisable.





"In addition to the above records it has been found to be of great assistance to the auditor and of value to the bank officers and trustees to have a monthly report prepared which includes every property owned by the bank during that month, the rent received, the amount overdue, or a report of vacancy, and comments on eviction procedure or other pertinent information.

"(4) Minutes of meetings: Since the auditor must trace votes to possess and foreclose property, authorize contracts for rehabilitation, release possession, sell or dispose of property and write down book values, this work will be greatly facilitated if the minutes are properly headed and indexed. In some banks this tracing of minutes is further assisted by noting in the cash book beside the entry either the page of the minute book or the date of the vote.

"The assignment of the work of handling and recording real estate operations to bank employees should be done with a view to providing the greatest possible degree of internal check. Thus the recording of rental receipts and expenditures for operation or rehabilitation should be done by someone who has no control of their receipt or expenditure. If a separate real estate department is maintained it is well to have it divorced from the handling of such funds in so far as possible. Rents collected by this department may be deposited in a bank account from which it has no power to





make withdrawals.

"The arrangement of foreclosure records and supporting data along the lines suggested above would be of material assistance to the auditor in conducting his audit. It should enable him to complete this work in a shorter time with a resultant saving in the costs thereof."

Much more space has been given to the accounting for real estate by foreclosure because of its comparative newness to mutual savings bankers; the newness comes from the care given to its foreclosed properties and not from the fact of holding such properties.

Taxes & Insurance Paid on Mortgaged Property. This account represents balances due from mortgagors for taxes and insurance paid by the bank and for which payments are made by the mortgagors periodically. Explanation is due to the effect that payment is made of "back" taxes of only those mortgagors who have shown a disposition to try to keep up with their expenses, but, due to hard circumstances, have been unable to meet their obligations. If a little time will help them, most banks are willing to co-operate. No current taxes are paid for mortgagors.

Expenses. Into this account go all the sundry expenses, such as postage, stationery, etc. Its column may be found in the General Cash Book.

Bank Building. If the mutual savings bank owns its building, periodic write-offs should be made to allow for the depreciation.



Furniture & Fixtures. This is an asset account and should receive its allotment of depreciation periodically.

Unexpired Insurance Premiums is an account which is self-explanatory. Prepaid premiums.

Cash on hand and in Banks. This is the controlling account of the entire cash system. It includes all funds on hand and on deposit in other banks. (See Appendix, Exhibit 9 for a suggested cash book form.)



## PART III

## INVESTMENTS





## CHAPTER IV

### INVESTMENT POLICIES

#### Introduction

Investments are of such importance, it is deemed advisable to spend a little more time in giving the principles of investing as practised by the mutual savings banks and, for comparative purposes, by the savings, building and loan associations. It would be quite essential for an accountant to familiarize himself with the regulations of the state governing the investments of the bank for which he was employed.

It is recognized that the subject "Investments" can not be thoroughly treated in the limited space or the scope of this work. It will be sufficient if a general working knowledge of what constitutes legal investments for savings banks is acquired. In the succeeding paragraphs, specific reference is made to the Statutes of the Commonwealth of Massachusetts. These Statutes have been chosen because they are considered by authorities, in all the states in which savings banks exist, to be conservative and tested laws governing investments for savings banks and savings departments in trust companies. Regulations of the State of New York, which state has the next largest number of mutual savings banks, vary but little from the Massachusetts Statutes, and then not in the major details.

To keep the discussion of the investment principles



and methods of the savings, building and loan associations on the same basis, the Massachusetts Statutes governing cooperative banks (which are the building and loan state associations of the eastern section of our country) will be used.

It might be well to mention the fact, which is well known, that in the northeastern section of the country, laws governing building and loan associations have been effective, strict, tested and found "not wanting." Whereas in the middle and western sections of the country, such laws have either been lax or non-existent. Such a state of affairs with no guiding hand or state examination of the associations, or provision for regulation gave rise to the Federal Savings and Loan Associations. These Federal associations are described as combining the best in the two systems--the mutual savings banks and the building and loan associations. They are, however, supposed to function in those sections and states where the communities are not already adequately served both in respect to mutual thrift institutions and in respect to the financing of homes.

Inasmuch as this new type of lending agency, of the Government, and a direct competitor of both the mutual savings banks and the building and loan associations of the state, the following brief outline is given to make clear to the reader the exact position of the Federal Savings and Loan Association:





## (1)

### Federal Savings and Loan Associations

#### Authority

Establishment--Federal Savings and Loan Associations (1,212 chartered as of December 31, 1936; 1,317 as of December 1, 1937, showing a growth of 105 associations in eleven months ending December 1, 1937) are organized in 48 states under the authority of the Home Owners' Loan Act of 1933; the first association was chartered in 1933.

Life--permanent.

#### Organization

Management--Federal Savings and Loan Associations are mutual in character and are managed by local directors and officers.

Supervision--They are supervised by the Federal Home Land Bank Board; they are sponsored by the United States government and are organized chiefly in counties without local thrift and home-financing facilities.

#### Funds

Capital--1. Total assets were approximately \$791,442,270 on December 31, 1936; \$1,046,723.794 on December 1, 1937. The government's shareholdings on December 31, 1936, were \$153,700,400, of which the Treasury held \$49,223,000 and the Home Owners' Loan Corporation \$104,477,400 (not including \$21,143,900 in other building and loan associations). Private investors buy instal-

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(1) "Government Lending Agencies," Committee on Banking Studies, pp 22, 23 and 24; pamphlet published by the American Bankers Association, New York City, January, 1938.





ment thrift shares, optional savings shares, prepaid shares, or full-paid income shares under old charters; savings or investment shares under new charters. Shares are insured up to \$5,000 for each investor by the Federal Savings and Loan Insurance Corporation and are exempt from normal taxation.

2. The government's capital is repayable; after five years each association must set aside one-third of receipts from investors to retire the Treasury's preferred stock. Upon the request of the Home Loan Bank Board, associations will repurchase the government's full-paid income shares five years after purchase and in amounts not exceeding 10% a year of the total amount held by the Treasury. Voluntary repurchase is permitted at any time.

3. Dividends on shares now average 3.7%, paid equally to the government and investors. Dividends to the Treasury and to the Home Onwers' Loan Corporation have averaged 3.7% on investments.

#### Appropriations

1. \$50,000,000 was appropriated by Congress for Treasury purchase of preferred and full-paid income shares of Federal Savings and Loan Associations (preferred holdings restricted to \$100,000 or a like amount of privately owned shares, whichever smaller, in each institution); of this amount, \$700,000 was allocated to the Home Loan Bank Board for develop-



ment purposes.

2. \$300,000,000 of the Home Owners' Loan Corporation's bond authorization is allocated to purchase full-paid income shares in any Home Loan members or insured institutions (combined government holdings restricted to three times private subscriptions).

### Borrowing Powers

Federal Savings and Loan Associations may borrow up to 35% of their paid-in shareholdings from the Federal Home Loan Banks and up to 10% from other sources, total not to exceed 35% of same.

### Functions

Lending Functions--1. Kind of loans: Federal Savings and Loan Associations lend generally on first mortgage liens on homes or combinations of home and business property to re-finance home mortgage debt or to build new homes.

2. Limitations: Loans are restricted to \$20,000 and must be on properties located within 50 miles of office, except that 15% of loans need not be restricted to \$20,000 and may be outside this area (but secured by first liens) and state-converted associations may lend in areas where they formerly operated. Loans also are restricted to 75% of the appraised value of the home or combination property and to 50% of the value of other improved real estate.





3. Maturities: Maturities range from five to 20 years. Loans are amortized monthly in amounts sufficient to retire debt at maturity; instalments are equal in amount, with interest and principal varying.

4. Rates: Interest rates are established by individual institutions in accordance with state laws but may not exceed 8%.

5. Loans on Shares: Loans may be made to shareholders up to 75% of amounts credited to their accounts, provided no repurchase applications have been on file more than 30 days.

Federal Savings and Loan Insurance Corporation:

Authority--The Federal Savings and Loan Insurance Corporation was established in Washington on June 27, 1934, under the authority of the National Housing Act of 1934, Title 4; life, permanent.

Management--The Corporation is managed by a board of five trustees, consisting of the Federal Home Loan Bank Board, appointed by the President, and by officers consisting of general manager, treasurer, and counsel.

Capital--1. Capital totals \$100,000,000, all of which is owned by the government, subscribed by the Home Owners' Loan Corporation in the form of Home Owners' Loan Corporation bonds.





2. Dividends equivalent to the interest coupons on bonds are paid to the Home Owners' Loan Corporation.

Appropriations--The Corporation receives no appropriations from Congress.

Borrowing Powers--1. Limits: The Corporation may issue bonds or debentures at the determination of its trustees; there are no statutory provisions for terms or limitations (none yet issued).

2. Security: These obligations are secured by assets of the Corporation.

3. Tax Exemption: These obligations are not guaranteed by the United States, but are exempt from normal taxation.

Assessments--The Corporation assesses insured institution 1/8 of 1% of their share accounts annually until its reserve fund equals 5% of all insured share accounts and creditor obligations; the Corporation may assess an additional 1/8 of 1% annually to meet losses.

Insurance Function--1. The Corporation insures share accounts held by investors in insured institutions up to \$5,000 each. In case of default the investor in an insured institution, on transferring his account (up to \$5,000) to the Corporation, has the right to select either (a) a new insured account of



equal amount in an insured institution, or (b) reimbursement of 10% of his insured account in cash, 45% in non-interest-bearing debentures of the Corporation due one year from the date of default, and 45% in similar debentures due three years from the date of default. This type of insurance differs from insurance of banks by the Federal Deposit Insurance Corporation, in that the latter pays depositors in closed banks strictly in cash.

2. The Corporation can merge, liquidate, or operate Federal Savings and Loan Associations in default, and establish new associations to take over assets.

3. Insurance by the Corporation has no connection with insurance of mortgages under the Federal Housing Administration.

Lending Functions--The Corporation may lend to prevent default in insured institutions or to restore institutions in default to operation; contributions to such institutions are limited to the amount necessary to save expense of liquidation.

In concluding the mention of the Federal Savings and Loan Associations, it might be said that a comparison between insured savings deposits in banks and investments in Federal savings and loan associations shows many vital differences and should be carefully read so that their full import may be understood. One of the chief differences is stated in the following paragraph:





"Building and loan associations and savings and loan associations are not banks. Nevertheless, they are competitors for savings. Reduced to its simplest terms, the function of the building and loan association is to sell shares or certificates on an instalment basis and to use the money to make mortgage loans. By no stretch of the imagination can the shareholder be considered a depositor or his money a bank account. It has more the nature of a long term non-liquid investment."(1)

### Types of Investments

As stated above, the practices permitted in the State of Massachusetts for the investment of depositors' funds by savings banks will be used. Following are the types of investment legal for Massachusetts mutual savings banks:

1. First Mortgages of Real Estate.
2. Government Bonds.
3. Public Funds.
4. Railroad and Terminal Bonds.
5. Street Railway Bonds.
6. Telephone Company Bonds.
7. Gas, Electric or Water Company Bonds.
8. Bank Stocks (deposits in banks, bankers' acceptances).

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(1) Benson, Philip A., in an address before the American Bankers Association Convention at San Francisco, 1936; Mr. Benson is President of the Dime Savings Bank of Brooklyn and Vice President of the American Bankers Association.





9. Loans on Personal Security.
10. Farm Loan Bonds.
11. Bank Building.
12. Real Estate acquired by Foreclosure.
13. Securities acquired in settlement of indebtedness.

It will be noticed by the table of percentages given on page 113 covering the investment of funds in the mutual savings banks of Massachusetts, to what extent the average bank takes advantage of the regulations.

#### Basis for investing.

The rate to maturity is the basis for savings bank investing. Up to a certain point income yield is a necessity; beyond that point it becomes a luxury. Everybody would, of course, like to purchase on the most favorable terms; the lower the price, the higher the income rate. Few savings banks countenance trading in and out of the market; it is considered bad practice because it fosters the speculative appetite which should always be kept in strict abeyance. The reason is obvious: the mutual savings banker is investing someone else's money; he must maintain safety of principal with a reasonable amount of return for the monies invested.

With the first factor in mind and with the thought



also that a savings bank will always consider security of primary importance, we may proceed to find out specifically what is considered legal for savings banks and, by comparison, for cooperative banks (representing the savings, building and loan interests).

### First Mortgages of Real Estate

The most important outlet for investing funds is the loaning of money to people to help to finance their owning their own home--first mortgages of real estate. As may be seen on page 113 47% of the deposits of the average mutual savings bank in Massachusetts is invested in first mortgages; the statutes authorize 70% as given below.

(1)  
"Section 54. Deposits and the income derived therefrom shall be invested only as follows:

"First. In first mortgages of real estate located in the commonwealth but not more than seventy per cent of the whole amount of deposits shall be so invested. No loan on mortgage shall be made except upon written application showing the date, name of applicant, amount asked for and security offered, nor except upon the report of not less than two members of the board of investment who shall certify on said application, according to their best judgment, the value of premises to be mortgaged; and such application shall be filed and preserved with the records of the corporation. All loans secured by first mortgages of real estate shall be subject to the following restrictions:--

(a) A loan secured by a first mortgage of real estate located in the commonwealth, except real estate referred to in subdivision (b) hereof, may be made on demand or for a period not extending beyond three years from the date of the note and shall not exceed sixty per cent of the value of the

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(1) General Laws of the Commonwealth of Massachusetts, Chapter 168, Section 54-1, revised and effective, April, 1937.





premises to be mortgaged.

(b) A loan secured by a first mortgage of unimproved and unproductive real estate located in the commonwealth may be made on demand or for a period not extending beyond three years from the date of the note and shall not exceed forty per cent of the value of the premises to be mortgaged.

(c) Not later than three years after the date of the note, as provided by subdivisions (a) and (b) hereof, not less than two members of the board of investment shall certify in writing, according to their best judgment, the value of the premises mortgaged; and the premises shall be revalued in the same manner at intervals of not more than three years so long as they are mortgaged to such corporation. Such report shall be filed and preserved with the records of the corporation. If at the time a revaluation is made, the amount loaned is in excess of sixty per cent, or, in the case of unimproved and unproductive real estate, in excess of forty per cent, of the value of the premises mortgaged, a sufficient reduction in the amount of the loan shall be required, as promptly as may be practicable, to bring the loan within sixty per cent, or, in the case of unimproved and unproductive real estate, within forty per cent of the value of said premises.

(d) A loan secured by a first mortgage of real estate located in the commonwealth, except real estate referred to in subsection (b) hereof, not exceeding sixty per cent of the value of the premises to be mortgaged, may be made for a period extending beyond three years, but not exceeding twenty years, from the date of the note, provided the terms of such note shall require payments on the loan to be made in quarterly installments, at intervals not exceeding three months, such payments to commence not later than three months after the date of the note, and to be in amounts aggregating annually not less than two per cent of the original amount of the loan.

(e) A loan secured by a first mortgage of real estate located in the commonwealth, except real estate referred to in subsection (b) hereof, not exceeding seventy per cent of the value of the premises to be mortgaged, may be made for a period extending beyond three years but not exceeding twenty years from the date of the note, provided the terms of the note shall require payments on the loan to be made in quarterly installments, at intervals not exceeding three months, such payments to commence not later than three months after the date of the note, and to be in amounts aggregating annually not less than three per cent of the original amount of the loan. No loan under this subsection shall be made for a sum in excess of twenty-five thousand dollars.





(f) Not later than three years after the date of the note, as provided by subdivisions (d) and (e) hereof, not less than two members of the board of investment shall certify in writing, according to their best judgment, the value of the premises mortgaged and the premises shall be revalued in the same manner at intervals of not more than three years so long as they are mortgaged to such corporation. Such report shall be filed and preserved with the records of the corporation.

Whenever the commissioner deems an excessive loan has been made, or is about to be made upon real estate, he may cause an appraisal of said real estate to be made at the expense of the bank making the loan. One appraiser shall be named by the commissioner, one by the bank making the loan, and a third by the two thus named. Said appraisers shall determine the value of said real estate and certify the same in writing to the commissioner and to the bank. If it shall appear from said appraisal that said loan is in excess of the amount allowed by this clause, the commissioner may make such order in relation thereto as he deems advisable."

Thus it may be seen that there are chiefly two classifications for home financing: (1) the short-term "straight" loan; by "straight" meaning no plan for amortization of principal, or a definite payment of stated sums at specified intervals, leaving the whole amount of the mortgage loan to be due at the end of the time of the loan; (2) the long-term amortized loan, which as its wording implies means that stated amounts of the principal are paid at regular periods; reducing both principal and amount of interest in dollars. This latter type of loan provides for greater sources of liquidity in critical periods, than does the straight loan. For all practical purposes, however, the board of investment members of a mutual savings bank, upon revaluation of a





property, may require small regular payments on account of the principal of the mortgage loan to bring the total loan within limit prescribed by the statutes; this is as true of the short-term loans described under the General Laws of Massachusetts, Chapter 168, Section 54-1 (a), (b), and (c) as it is of the long-term loans described under the same subsection but in (d), (e), and (f); all given heretofor.

That which has been discussed relative to the mutual savings banks' form of first mortgage on real estate is known as the common form of mortgage.

The building and loan associations of Massachusetts, more specifically the cooperative bank, have the following regulations concerning loans on real estate:<sup>(1)</sup>

"Section 24. Any person whose application is accepted shall be entitled, upon giving proper security, to receive a real estate loan of not exceeding two hundred dollars for each unpledged share held by him, or a share loan within the limitations hereinafter provided.

"Section 25. The directors .....may loan such funds upon first mortgages on real estate situated in this commonwealth or upon the shares of the corporation, subject to the provisions of sections twenty-six to twenty-nine, inclusive, at a rate fixed by the board of directors. ....

"Section 26. No loan shall be made upon real estate unless a written application is made therfor, showing the date, name of applicant, amount of loan desired, description of property offered and other information deemed necessary. A written report thereon shall be made by at least two members of the security committee, signed by them, approving the security

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(1) General Laws of the Commonwealth of Massachusetts, Statutes relating to Cooperative Banks, Chapter 170, Sections 24, 25 (in part), 26, 27, 28, and 29.



offered and certifying to the value of the property according to their best judgment. The application and report shall be filed and preserved with all other papers relating to the loan.

"Section 27. For every loan made upon real estate a note shall be given, accompanied by a transfer and pledge of the requisite number of shares standing in the name of the borrower, and secured by a mortgage of real estate situated in the commonwealth, the title to which is in the name of the borrower and which is unencumbered by any mortgage or lien other than municipal liens or such as may be held by the corporation making the loan. No loan upon one parcel of real estate shall exceed eight thousand dollars, and no loan shall exceed eighty per cent of the value of the mortgaged property, if improved real estate, nor more than fifty per cent of such value, if vacant land, as certified by the security committee. The shares so pledged shall be held by the corporation as collateral security for the performance of the conditions of the note and mortgage. The note and mortgage shall recite the number of shares and the series to which the shares belong and the amount of money advanced thereon, and shall be conditioned upon the payment at or before the stated meetings of the corporation of the monthly dues on said shares, and the interest upon the loan, with all fines on payments in arrears, until said shares reach their matured value or until said loan is otherwise cancelled and discharged. If the borrower fails to offer security satisfactory to the directors within the time prescribed by the by-laws, his right to the loan shall be forfeited and he may be charged with one month's interest at the determined rate, and with such part of the expenses incurred as may be determined by the board of directors; and the money appropriated for such loan may subsequently be re-loaned.

"Section 28. Whenever the full value of all shares originally and subsequently pledged to secure any loan on improved real estate made and secured as aforesaid, after deducting all fines and other charges legally incurred respecting said shares, shall equal or exceed twenty-five per cent of the original amount of the note evidencing such loan, but not earlier than four years after the date of said note, such loan may, at the option of the owner of such shares and with the approval of the directors, be converted into a demand or time loan bearing interest at a determined rate payable monthly or quarterly, and evidenced by a new note secured by a first





mortgage in common form upon said real estate; provided, that upon application of the shareholder for such conversion, a report approving the security for such converted loan and a certification of the value of the real estate securing the same shall be made in the manner provided by section twenty-six for original co-operative bank loans, and that said loan when so converted will not exceed sixty per cent of the value of the real estate securing the same, as certified as aforesaid, and said shareholder shall subscribe for such number of shares in the current series and, until the discharge of such converted loan, shall hold such number of shares as the treasurer may determine.

In the event of the conversion as aforesaid of a co-operative bank mortgage into a common form mortgage, the full value of the shares pledged to secure the cooperative bank mortgage, after deducting all fines and any other charges legally incurred and such sum as will leave the unpaid balance a multiple of fifty dollars, shall be credited to the owner thereof, the co-operative bank mortgage discharged and the shares pledged to secure the same surrendered and cancelled.

No loan or mortgage shall so be converted as to render the total amount of such converted loans held by such corporation in excess of fifteen per cent of the aggregate amount of loans secured by mortgages of real estate held by such corporation. Every parcel of real estate mortgaged to secure a converted loan shall be revalued at intervals of not more than three years so long as it is so mortgaged, by at least two members of the security committee of the corporation, who shall certify in writing according to their best judgment the value of the real estate so mortgaged. Such reports shall be filed and preserved with the records of the corporation. If, at the time of any such revaluation, the amount outstanding on such a converted loan is in excess of sixty per cent of the value of the real estate mortgaged to secure the same, a reduction in the amount of such loan shall be required, as promptly as may be practicable, sufficient to bring its amount within sixty per cent of the said value; provided, that no such reduction shall be required prior to the maturity of the loan.

"Section 29. Loans may be made upon unmatured, matured or paid-up shares which are not already pledged, except as provided in section seventeen, to an amount not exceeding ninety per cent of their withdrawal value at the time of the loan, and for every such loan a note shall be given, accompanied by a transfer and pledge of the shares borrowed upon



as collateral for the loan.

Loans upon shares held in the names of two or more persons, except fiduciaries and persons holding as tenants in common, may be made to one or more of the owners thereof, and a note signed by such owner or owners shall be deemed a valid pledge of the shares in said account and sufficient evidence of the debt created thereby, notwithstanding that said note is not signed by all or any other owner thereof.

No loans shall be made on shares held in trust unless power so to borrow is contained in the instrument creating the trust or given by a decree of the probate court having jurisdiction."

The savings, building and loan associations in general have two different types of amortized loans with a third variation which acts as a compromise between the first two.<sup>(1)</sup> The cooperative banks (state building and loan associations of Massachusetts) may be said to subscribe to the first of the following types, with the privilege of conversion as stated above in General Laws, Massachusetts, Chapter 170, Section 28.

1. The first type of amortized loan is the so-called "share-accumulation sinking fund" loan. This was the original plan of the first building and loan association and is the traditional plan. It means their plan of building up a fund in the form of paying up shares in their institution over a stated period at the end of which time the amount of the mortgage would be accumulated. These shares are pledged from the start as collateral security for the mortgage loan.

By this method, a fixed amount is paid each month to the building and loan association, a stated portion goes

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(1) "Savings, Building and Loan Principles," prepared by the American Savings, Building and Loan Institute, 1937, Chicago, Illinois; pp 179 - 190 inclusive.







for payment of the "dues" on the shares and interest; the amount of interest in dollars remains the same throughout the life of the loan. Under this plan, the borrower becomes a compulsory saver and has the same status as any other saver with a building and loan association; he receives dividends and is fined if he does not pay regularly, provided the association has a system of fines on its savings accounts. The borrower's situation is improved if the association improves and the borrowers (as savers) bear some of the "brunt of the battle" in times of depression; the latter fact is an argument in favor of this plan.

2. Direct-reduction plan may be called the long-term monthly-amortized loan plan. A borrower either subscribes for or purchases but one share of stock in the association to establish his membership status. This borrower has to make regular monthly payments of principal and interest with perhaps a payment on but one share of stock instead of payments on the number of shares necessary to cancel his loan on maturity. The principal payments reduce the amount of the loan and consequently the interest payments decrease; the interest for the following month is based upon the reduced principal. The amount paid each month is the same in total, but, after the amount of interest is deducted, the balance goes to re-



duce the principal, therefore next month the amount taken for interest is lower and a corresponding increase is made in the amount deducted from the principal. This plan is psychologically good for the borrower, because he sees his principal growing smaller. This plan has a disadvantage to the association in the fact that, in times of adversity, its borrowers are not also savers to the extent described in the share-accumulation sinking-fund loan plan, the reason being, it will be recalled, that the borrowers are not compelled to subscribe to any more than one share.

3. Cancel-and-endorse plan. This method or plan comes between the first two mentioned, in that the borrower subscribed to shares equal to the amount of the loan (and his monthly payment is the same throughout the period of the loan) but his share payments are considered to be attributable entirely to one share. Consequently when his share payments equal the matured value of a share, it is cancelled and the amount endorsed on the back of his note, thus reducing the amount of the loan and in proportion the next interest payment, thus allowing more money to be applied in paying up the next share, etc. Each succeeding share is cancelled in increasingly shorter periods.

This plan has most of the legal and technical aspects of the share-accumulation plan and the practical effect of the direct-reduction plan.





Thus it may be seen that although the chief outlet for funds in both the savings banks and building and loan associations is the first mortgage on real estate, the methods of handling these loans is vastly different; the result achieved is practically identical--a long-term loan with a steady reduction of principal on a sound and practicable basis for borrower and lender.

Before continuing with the legal investments according to the Massachusetts Statutes, it would be well to state that most savings and loan associations' codes limit the investment of idle funds to United States government or municipal securities. Some codes confine the investment in municipals to those in the state in which the association is situated; whereas others give a certain amount of discretion or latitude depending upon certain conditions imposed regarding the purchase of municipals outside of the state. In cases where savings and loan associations are governed by the banking department as a division of the whole banking department, it is common to find the provision that investments allowable by savings banks are also eligible for savings and loan associations.





## Public Funds

Following are the regulations governing the investment of funds of mutual savings banks in public funds, including United States government bonds:<sup>(1)</sup>

"Second. (a) In the public funds of the United States or of this commonwealth, or in the legally authorized bonds or notes of any other state of the United States, but not including a territory or dependency thereof, which has not within the twenty years prior to the making of such investment defaulted in the payment of any part of either principal or interest of any legal debt; provided, that the full faith and credit of such state is pledged for the payment of such bonds or notes.

(b) In the bonds or notes of a county, city or town of this commonwealth.

(c) In the bonds or notes of an incorporated district in this commonwealth whose net indebtedness does not exceed five per cent of the last preceding valuation of the property therein for the assessment of taxes.

(d) In the bonds or notes of any city of Maine, New Hampshire, Vermont, Rhode Island or Connecticut, whose net indebtedness does not exceed five per cent of the last preceding valuation of the property therein for the assessment of taxes; or of any county or town of said states whose net indebtedness does not exceed three per cent of such valuation; or of any incorporated water district of said states which has within its limits more than five thousand inhabitants, and whose bonds or notes are a direct obligation on all the taxable property of such district, and whose net indebtedness does not exceed three per cent of such valuation: provided, that there is not included within the limits of such water district, either wholly or in part, any city or town the bonds or notes of which are not a legal investment.

(e) In the legally authorized bonds for municipal purposes, or in refunding bonds issued to take up at maturity bonds which have been issued for other than municipal purposes, of

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<sup>(1)</sup> Statutes Relating to Savings Banks, General Laws, Massachusetts, Chapter 168, Section 54-2 (a) through (h).





any city of any state of the United States, other than a territory or dependency thereof, which was incorporated as such at least twenty-five years prior to the date of such investment, which has at such date not less than thirty thousand nor more than one hundred thousand inhabitants, as established by the last national or state census, or city census certified to by the city clerk or treasurer of said city and taken in the same manner as a national or state census, preceding such date, and whose net indebtedness does not exceed five per cent of the valuation of the taxable property therein, to be ascertained by the last preceding valuation of property therein for the assessment of taxes.

(f) In the legally authorized bonds for municipal purposes, or in refunding bonds issued to take up at maturity bonds which have been issued for other than municipal purposes, of any city of any state of the United States, other than a territory or dependency thereof, which was incorporated as such at least twenty-five years prior to the date of such investment, which has at such date more than one hundred thousand inhabitants, established in the same manner as is provided in subdivision (e) of this clause, and whose net indebtedness does not exceed seven per cent of the valuation of the taxable property therein, to be ascertained as provided in said subdivision (e).

(g) In subdivision (d), (e) and (f) of this clause the words "net indebtedness" mean the indebtedness of a county, city, town or district, omitting debts created for supplying the inhabitants with water and debts created in anticipation of taxes to be paid within one year, and deducting the amount of sinking funds available for the payment of the indebtedness included.

(h) The provisions of subdivisions (d), (e) and (f) of this clause shall not authorize the investment of funds in the bonds or notes of any county, city, town or district which has been in default for more than one hundred and twenty days in the payment of any of its indebtedness or interest thereon within ten years next preceding the making of such investment. A county, city, town or district shall be considered to be in default within the meaning of this subdivision while any unpaid and overdue obligation, either principal or interest, shall remain outstanding."

It so happens that the Massachusetts Statutes governing cooperative banks, General Laws, Chapter 170, Section 25, states (among other facts) that "The directors may invest funds





in any of the securities named in the second clause of section fifty-four of chapter one hundred and sixty-eight, (which is the section just given above) or in the stock or obligations of the Federal Home Loan Bank referred to in section fifty-six of this chapter (Chapter 170), or of any successor of said bank." Then follows the section permitting the loaning of funds upon first mortgages on real estate. The rest of this section deals with loans and comprises the whole of what the Statutes have to say regarding the investment of the cooperative bank in other mediums than the first mortgage on real estate; namely, "The corporation may loan such funds to other co-operative banks, and may make loans to the holders of unpledged unmatured, matured and paid-up shares of other co-operative banks, on such terms and at such rate of interest as may be fixed by the board of directors. The corporation may deposit not more than two and one half per cent of its share liabilities or ten thousand dollars, whichever is the greater, in each and any banking association incorporated under the authority of the United States and located in this commonwealth, and in each and any trust company incorporated in this commonwealth; provided, that any such deposit, if it exceeds ten thousand dollars, shall not be more than twenty-five per cent of the capital stock and surplus fund of such association or trust company."



It is a curious fact that there are no further allowances for Massachusetts co-operative banks to invest their funds in other securities such as railroad, public utility, and telephone company bonds. This is evidently not true of all sections of the country, because the following comments are to be found covering savings, building and loan associations investments in other than first mortgages on real estate:<sup>(1)</sup>

First is given the classifications of investments for savings, building and loan associations in general and it will be seen that the first classification mentioned has already been discussed at some length; namely, mortgage loans which constitute the major business of any association. Type of loans, the security involved have already been given. The second class of investments can be described as those which are made in connection with facilities for running the business, such as bank building, and equipment. The third group consists of investments for the protection of the rights and interests of the association, such as the right to acquire real estate through foreclosure proceedings, deficiency judgment against the borrower (which occurs as the difference between the sale which is allowed by the court and the book value representing the unpaid balance and all other allowable charges against the borrower). And finally, investments are allowed of a nature which will be most suitable to an association

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(1) "Savings, Building and Loan Principles," prepared by the American Savings, Building and Loan Institute; Chapter XII, six pages, Chicago, Illinois.





having idle funds, that is, funds which are not absorbed in the loan demands existent at any one time. It is with the investments of idle funds that we are more chiefly concerned.

The normal trend of financial affairs of an association (savings, building and loan association) will bring periods when there are not sufficient funds to take care of legitimate loan demands as well as other periods when funds are being accumulated in excess of any ability to lend them out again safely and profitably. The margin upon which savings and loan associations must operate between the interest charged to borrowers and the dividend paid to investors is so small that surplus money is of deep concern to any manager. These idle funds bring little return to the association, particularly in the light of rulings by the Federal Reserve Board and clearing house agencies reducing the interest paid on time deposits of commercial banks and eliminating any interest paid on demand deposits. It is the problem for the manager and directors to determine what, if anything, should be done in order to derive some income from idle funds while maintaining safety and liquidity at any time in the future.

#### Share loans

Not strictly to be classified as an investment for idle funds, yet an investment quite apart from the mortgage lending policy of an association, are the loans which can be made upon the shares of any association. Laws have strictly





defined the methods and the terms of such share loans to avoid abuses of their original intention. They have been discussed insofar as Massachusetts Co-operative Banks are concerned under Sections 25 and 29 of the General Laws of Massachusetts, Chapter 170, given on pages

Terms of repayment are for the most part left to the discretion of the management due to the fact that they have been one of the minor functions of an association.

#### Federal Home Loan Bank System

The enactment of the Federal Home Loan Bank Act brought to the savings and loan industry a reserve system which could be utilized by associations having excess idle funds. Application for stock in any one of the twelve banks furnishes not only a means of placing money which will earn a nominal dividend but also establishes a line of credit for future financing needs. Only a minimum of stock is set in the act, therefore, the association may purchase further shares at its discretion. Federal Home Loan Bank stock may be purchased either in instalments extending throughout one year's time, or it may be purchased in a lump sum. In most of the banks a dividend rate of from 1 to 2% has been paid.

#### Deposits

Any Federal Home Loan Bank may accept deposits from



member institutions as regulated by the bank's Board of Directors. Policies as to interest paid for such deposits of member associations have been varied.

The Federal Home Loan Bank Act as amended provides for bonds or debentures being offered by the system as a whole or by individual banks or groups of banks in order to procure funds from the public when amounts made available from the treasury are exhausted. Such securities should prove to be a popular type of investment for associations having funds which cannot be put into mortgage loans.

#### The Investment Market

The building and loan codes governing state and Federal-chartered associations are both restrictive and broad in the type of securities which association may purchase. Before any association manager attempts to invest idle funds in bonds which are eligible and which are subject to the entire money market conditions, he should at least acquaint himself with the fundamental principles regarding his investment. He has an option of purchasing either short-term notes or long-term bonds, both of which have their points of advantage and both of which are allowable under certain conditions.

The short-term money market includes a number of types of investment, all of which are not available to an





association for investment purposes.

The common instruments in the short-term money market are United States treasury notes and certificates of indebtedness, acceptances, call money, commercial paper and ninety-day collateral loans, of which only the first can be purchased by savings and loan associations according to government statutes, and of which only the first, United States treasury notes, bankers' acceptances, and certain short-term municipal notes can be purchased by the mutual savings banks in accordance with the statutes of the state in which the savings banks exist.

#### Short-Term Government Borrowing

In all state codes regarding the investment which may be made by associations is a provision that government securities or bonds fully guaranteed as to principal and interest by the United States government can be purchased, accepted or sold by an association at its discretion. United States government obligations have stood as high if not higher than any other type of security offered throughout the international financial world and can, therefore, be relied upon to fulfill the needs of an association for the three factors involved in placing idle funds.

The government is financed, of course, through taxation of various types. Although small amounts of revenue



come in incessantly throughout the year, the bulk of the government income is received at the four quarterly periods of the year. It can, with a great degree of certainty, anticipate receipt of these taxes and for that reason has been able to finance itself through short-term money at very favorable terms.

### Long-Term Borrowing

A larger field of investments is open to savings and loan associations in long-term investments. Inasmuch as only high grade securities can be purchased by associations, this discussion will be limited to those which are allowable only in existing savings and loan laws. In high grade securities the risk is minimized but should be carefully weighed, picking those types which offer the most stability both from the standpoint of capital investment and yield.

The total volume of long-term loans in existence greatly exceeds new loans made in any one year. It may be said then that the entire long-term money market has been seasoned for the protection of the investor. The rate, therefore, is not dependent upon the amount of new securities which are offered nor upon the amount of new savings which are accumulated and available for this long-term money market at any one time. The whole money market has its effect upon the bond market in determining the yield of any particular





investment to maturity. In purchasing any long-term bonds, not only the stated rate of interest to be paid but also the price which must be paid for the security and its maturity should be considered. Also in connection with maturities, provisions regarding the retirement by the issuing corporation prior to the maturity date should be carefully studied. It is customary that in high-grade securities any retirement before maturity will be at a certain schedule, usually above par and somewhere between 102 and 105 depending upon the length of time remaining before the scheduled maturity. The yield then is determined by computing the nominal return as affected by any premium or discount which must be made up through purchasing the security above or below par respectively. Thus, a 6% bond purchased at 105 would yield only 5.7% and further consideration must be made if the bonds are matured at par because an additional \$5.00 capital loss would have to be deducted from the current yield.

Particularly in the case of a savings and loan association whose chief concern is liquidating value of securities, are the fluctuations in current quotations important. The principles involved, however, are just as applicable to savings bank investments. When yields are computed on long maturities, relatively large fluctuations





in bond prices will produce relatively small changes in their calculated yield to maturity. A 5% decline in bond prices would seriously affect the liquidation of securities held even though it represented only a  $1\frac{1}{4}\%$  increase in yield.

### Government Bonds

There is an organized group of traders who are very instrumental in keeping the price of government bonds from fluctuating. The yield on these bonds is the lowest to be offered in the long-term investment field for a number of obvious reasons. They are non-taxable, and the security is unquestioned since they are the direct credit obligations of the United States government. Whereas during the war Liberty bonds bore interest as high as  $4\frac{1}{4}\%$ , the 1955 money market drove this price which the government has to pay for its long-term financing down to  $2\frac{3}{4}\%$ .

### Municipal Bonds

An important consideration in judging the merits of the various types of bonds under this classification should include first of all the per cent of bonded indebtedness to appraised valuation and the per cent of tax delinquency. The municipal governments like the Federal government must depend upon their income from taxation. Efficiency in effecting tax payments must, therefore, be thoroughly checked as well as the adequacy of taxation rate. Some indication of past financial policies can be gained in considering the source of the present



bonded indebtedness as well as the past credit history as far as default of either principal or interest of existing obligations is concerned. The past history of the market value of these securities should be carefully noted for reasons indicated above on the subject of losses in capital which are not commensurate with the yield as per the original investment. If the market value has fluctuated to a great extent, the security would not be as desirable as one which had a more stable market value history.

#### State Bonds

Less than half of the states in the Union have a bonded indebtedness either through financial policy or through absolute denial of that right as imposed by the state constitution. Most of the states issuing bonds are in the South, and some of these are very limited in their policy by reason of legislation which sets a maximum limit or percentage of bonded indebtedness to appraised value of taxable property in the state which must not be exceeded or a provision that specific legislation must be passed on each bond issue.

#### County Bonds

In practically every section of the United States public projects have been financed with county credit. These bonds have been issued with interest rates of from 4% to 5%







and have been primarily for the purpose of highway construction. It has been estimated that almost 40% of the bond indebtedness of the county has been for this purpose. Second in importance are the bonds issued by the school districts of the county for new educational equipment. Other typical purposes for county financing are sewage disposal, the purchase and development of park districts and harbor development.

#### Other Municipal Bonds

Numberous large cities have been able successfully to issue long-term bonds which are favorably marketed to the investing public. In these instances the purposes for which the money is borrowed are about the same as for the uses of county funds. The terms on which these funds have been borrowed compare favorably with state and county financing, any one of which should provide a suitable outlet for idle funds in an association permitted to make such investments.

#### Other Securities

Other securities which are recognized as suitable for associations' investment of idle funds are the bonds of certain railroad and public utility companies. In dealing with bonds issued by these two agencies, certain factors should be carefully investigated regarding the terms under which the securities are issued and the future possibilities



of the security behind the investment. Generally speaking, both railroads and public utilities offer mortgage bonds, collateral bonds and debentures. Mortgage bonds are by far the most common, and these are usually of the same nature as the real estate lending operations of the association and savings banks inasmuch as funds are borrowed on the security of real property. In determining the value of any particular mortgage bond, particular note should be taken (1) as to whether the property mortgaged is self-supporting as far as paying operating expenses and the interest requirements of the bond, (2) of the indispensability of that property to the present and future existence of the issuing corporation and (3) any further guarantees of return which are made by other corporations.

Mortgage bonds are offered in two classifications, both closed and open. Closed mortgage bonds mean that there is a specific stipulation that the property mortgaged will continue to be the security for the mortgage bond and that no other subsequent mortgage bonds of equal or greater amount may be issued with that property as security. Supplementing this closed provision may be the fact that subsequent bond issues may be placed with the property as security but that the lien of the subsequent bondholders will be subordinate to the original bondholders. Another clause of importance is the "after acquired" provision, which means that any property





added to the corporation will be considered a part of the collateral securing the bond first issued. So-called "open" mortgage bonds may be issued, which is the opposite from the "closed" type inasmuch as there is provision that future bonds may be issued with the same collateral. There may be a limit to the amount of bonds which may be issued, or there may be no limit in the type of bond called an open end. When the "after acquired" clause is also included, the first bondholders are somewhat protected inasmuch as with good business judgment no securities will be issued in excess of a certain conservative percentage of appraised value or assured income.

The advantage of having the closed issue is that a corporation may not keep issuing bonds in excess of reasonable amounts and thereby jeopardize the security of the first bondholders as well as the life of the corporation itself. On the other hand, closed issues may prevent a corporation from getting additional funds which are needed and which are economically sound in developing the business. It is interesting to note that one of the reasons for subsidiary companies having a separate name and separate group of officers, but for all practical purposes a definite part of a larger corporation, is the existence of the closed clause in mortgage bonds issued by the larger corporation. Any subsequent additions to the corporation which were made by the original company must be





made in the name of a separate corporate entity so as to get around their inability to issue future bonds on property acquired after the issuance of the first bonded indebtedness.

Of seeming importance, but practically of little importance, is the clause governing the conditions of the enforcement of the contract under a mortgage bond. Legally any bondholder may enjoin the corporation if he feels that his interests are being jeopardized through inefficient management. However, the costs of retaining legal services to force the corporation into liquidation are much too expensive to be undertaken by any individual. In addition if this were possible by the cooperative effort of all of the bondholders of a corporation, liquidation is the last resort due to the fact that a dead corporation is worth many times less than a going one. For this reason, it is the logical result that bondholders take a proportionate cut along with the other creditors and shareholders of the corporation in order to keep the corporation going rather than enforcing to the limit their first claims upon assets in liquidation.

It must be recognized that earning power of an issuing corporation underlies the value of any security. It is the live and going corporation rather than the dead one which guarantees a return as well as the safety of capital. The credit rating of a corporation in this ability to attract



funds at low interest costs has a close relationship to its earning power established in the past.

### Railroad Securities

Railroads have, for the most part, used the mortgage bond as the method of securing bond issues. They have commonly used the open end type, and they have been allowed to issue securities up to the full cost of improvement.

Closely related to the mortgage bond and peculiar to railroad issues are the equipment trust certificates. These trust certificates have as collateral specific equipment in use by the railroad company and are financed somewhat in the following manner: The railroad company will contract for a certain number of locomotives. When they are ready for delivery, title to these engines is vested in a trust company, which will then issue trust certificates to cover the amount involved and will at the same time enter into a formal lease with the railroad company for the use of the engines. Title remains with the trust company until the trust certificates are repaid, at which time the equipment is deeded over to the railroad company.

A type of security which is less important in the amount of financing done through its agency is the debenture issued against the general credit of the issuing company. These are not eligible for the mutual savings banks. No specific equipment or general property is the security for





such bond issue, and, therefore, they are usually for smaller amounts of money and can be issued only in cases of corporations in excellent financial condition. As a whole, they bear a higher rate of interest than the secured issues. Closely allied with the debenture is the income bond, which is the least desirable of the railway securities inasmuch as the income from a specific property is the only security, and usually a clause provides that the income must be earned and is not cumulative in paying the interest upon the face of the bond.

#### Utility Bonds

To a similar degree as found in railroad securities are mortgage bonds used by the public utilities. There is a distinction, however, in that utilities are to be allowed to issue only up to 70% or 80% of the improvement. Further restrictions are found in that no more bonds can be issued unless the present income of the utility corporation is from one and one-half to three times the interest on the old indebtedness as well as the proposed bonds.

Public utility mortgage bonds are strictly confined to those of operating companies, that is, those companies which actually produce the product which is marketed. These operating companies also issue debentures in a smaller volume just as is the case in railroads.



Public utility bonds are also issued by the holding companies either on a collateral or non-collateral basis. The purpose of the holding company is to give unification of action among operating companies. Therefore, the holding company will buy up controlling interests in numerous operating companies and with the stock so held as collateral will issue their own securities in what is called a collateral issue. The important point in investigating the worth of these collateral issues is the basis upon which the holding company bonds have been issued. If the holding company bonds have been based upon the par value of the operating company bonds so held, it is probably reasonable to expect the sound value of the securities. However, if the holding company bonds are based upon an inflated market value of the operating company bonds, it would be unwise to invest the funds of the trustee institution in this type of security. Holding companies may also issue their own debentures based upon their credit as established by the earnings of the various operating company bonds, and their worth is entirely relative to the soundness of judgment and the conservatism of the holding company.

There are many savings and loan managers who do not feel that they should try to invest their funds in the above-mentioned securities due to their inexperience and their in-





ability to safeguard their investment adequately. The savings banks, particularly the mutual savings banks of the East, are somewhat safeguarded in this respect inasmuch as the Commissioner or Supervisor of Banks of the state in which the mutual institution exists has a definite "legal" list of investments, which have conformed to the Statutes of the respective states, and which can be and is used as a guide. For Massachusetts mutual savings banks, the regulations governing railroad, terminal, street railway, telephone, gas electric, water company bonds, as well as bank stocks, loans on personal security, farm loan bonds, investment in the bank building, real estate acquired by foreclosure and securities acquired in settlement of indebtedness--these regulations will be found in the General Laws, Massachusetts, Chapter 168, Section 54, subsections 3 through 13.

A brief review of investment policies has been given and it now might be well to present a study of the trend of savings bank investments, using for analysis the mutual savings banking investments of Massachusetts. What follows has been compiled by a statistician of a brokerage firm; thus we obtain a viewpoint which is not directly a savings banker's point of view and which, in that event, may be considered a fairer point of view, at least an impartial one.





This study<sup>(1)</sup> is accompanied by a tabulation which is given for review on page 113. Deposits have increased it may be seen in spite of the fact that the rate of dividend continues over the period 1931 through 1937 inclusive to show a declining tendency. Furthermore, the ratio of guarantee and profit and loss to deposits has again increased. "The condition, as well as the portfolios, of the individual banks shows great divergence from the average. In spite of refusals to accept large individual deposits and to accept money from outside of the immediate locality, certain banks have grown so rapidly that it has been impossible under present investment conditions to show a corresponding growth in the surplus accounts.

"The percentage of deposits invested in United States Government bonds has shown a further significant increase, while the investment in railroad bonds, public utility bonds and mortgages has continued to decline. The managements of the individual banks will probably find it interesting to compare the portfolios of their institutions with the general averages, but the causes of the changes in the general averages and the variation in the requirements of the individual institutions must be considered if such a comparison is to be really instructive. It is probably true that no savings banker has as much as 26% of his deposits invested in United States govern-

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(1) Trowbridge, Edmund W., "Savings Bank Investments 1931-1937--A Study of Trends," from "The Savings Banker," Vol. XVII, No. 2, February, 1938, published by The Savings Banks Association of Massachusetts, Boston, Massachusetts.



## ANALYSIS OF MUTUAL SAVINGS BANKING INVESTMENTS (MASSACHUSETTS)

	<u>1931*</u>	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
Deposits in Millions . . . .	10.27	9.9	10.49	10.59	10.77	10.97	11.1
Rate of Dividend . . . . .	4.58	4.18	3.43	3.31	3.01	2.81	2.69
Guaranty to Deposits . . . .	4.748	5.053	5.191	5.454	5.682	5.859	6.076
Profit and Loss to Deposits	4.077	3.72	3.602	3.634	3.72	3.866	3.964
Surplus to Deposits . . . .	8.825	8.773	8.793	9.088	9.402	9.725	10.04
Cash . . . . .	1.815	2.255	2.304	2.773	3.113	3.101	2.468
Government Bonds . . . . .	4.545	6.221	9.779	14.312	18.463	23.059	26.083
Public Funds . . . . .	4.206	4.699	4.801	4.634	3.79	3.761	4.316
Rails and Terminals . . . .	12.762	12.972	12.942	11.851	11.528	11.812	11.596
Street Railway Bonds . . . .		1.465	1.25	1.057	.792	.565	.462
Public Utility Bonds . . . .	10.297	9.906	9.607	8.84	8.608	6.95	6.667
Bank Stocks . . . . .	2.905	2.656	1.941	1.828	1.752	1.787	1.923
Mortgages . . . . .	56.21	62.331	58.942	55.392	52.007	49.158	47.536
Loans on Personal Security .	4.706	3.967	2.899	2.448	1.953	1.638	1.455
Bank Building . . . . .	.96	1.023	.996	.999	.992	.965	.953
Securities Acquired . . . .	.304	.263	.204	.184	.128	.11	.121
Foreclosures, Poss., Taxes .	1.265	2.606	4.306	5.727	7.194	7.898	7.624
Miscellaneous . . . . .	.028	.359	.422	.457	.47	.42	.409

\* - Based on total assets---all other figures based on deposits.

! - Includes Street Railway Bonds.







ment bonds because he thinks that so large an amount is (not) required for the safety of the bank. Although the desirability of Government bonds as an investment has been brought out by the events of the past few years, the size of the present investment in Government bonds is largely due to the decline in favor or availability of other investment media.

"The financial policies followed by the Government which have resulted in the flotation of such large bond issues have, through the operation of the commercial banks, resulted in very low money rates, so that public utility companies and the better railroads have been able to call the  $4\frac{1}{2}\%$  and  $5\%$  coupon bonds which they formerly had outstanding and issue in their place  $3\frac{1}{4}\%$  and  $3\frac{1}{2}\%$  bonds. Although the savings banks have taken a large number of these new refunding issues, they have not taken them up to the amount of their original holdings. Thus we find that whereas in 1931 over 10% of deposits was invested in public utility bonds, in 1937 less than 7% was so invested. The willingness to not buy these refunding issues has not been the result of a decline in confidence in the credit of the utility companies but reflects the widely held conviction that money rates are extraordinarily low and that to commit the institutions to long-term investments at the present rates is not warranted.



"Because the Government bonds are available in issues of all maturities and, in fact, have been the only new issues of short maturity that have been sold recently, the banks have purchased them in spite of the generally lower yield. The slight increase in other public funds held by the savings banks is probably the result of additional purchases of short tax anticipation notes rather than of long-term bond issues.

"The further decline in mortgages likewise shows a change that has been more or less forced upon the banks rather than one of their own choosing. Competition of the Federal savings and loan associations, insurance companies and other lending agencies has continued and the willingness of some or all of these agencies to lend larger amounts in relation to property value (a form of competition which the experience of most savings banks over a long period of years has taught them it is unwise to attempt to meet) has meant that some mortgages have been transferred and that it has been more difficult to get good new mortgages to replace those which in the normal course of events have been paid off or foreclosed. For the first time in five years, a slight decrease in the foreclosures account is shown. The rather favorable market for real estate which prevailed in the early part of 1937 presented an opportunity to sell off some of the foreclosed properties





and the general improvement in business conditions made less foreclosures necessary.

"It is difficult to tell whether the slight decline in the holdings of railroad bonds is the result of liquidation of some of these issues during the year or whether it is the result of further writing down of their value on the books. Certainly some few banks availed themselves of the opportunity to liquidate some of their poorer bonds during the comparatively favorable market in the early part of 1937, but it is questionable whether the general confidence that was felt at that time did not lead some bankers to purchase rail bonds in the belief that the credit of the railroads would continue to improve and that the price of their bond issues might improve while public utility and other high grade investments were being adversely affected by a decline in the money market. Since the annual report, some liquidation of specific issues has taken place as a result of fear of adverse developments.

"It continues to be true that the average condition is by no means the ideal condition. The bank which can invest more than the average percentage of its deposits in good local mortgages is amply justified in doing so. The investment of a large percentage of the deposits in Government bonds may meet the requirements of the present situation, and if





the higher coupon bonds are purchased and the premiums charged off against surplus previously accumulated, a fair rate of return may be shown on the books, but it is difficult to see how such a policy can be followed for a long period of time without placing the banks in an unfavorable competitive position. The Federal savings bank loan associations have already instituted an advertising campaign featuring the higher rate of interest which they pay. Thus far little if any effect on the deposits in savings banks has resulted, but it is apparent that the savings banks must at least give consideration to the possibility of effective competition in the future.

"It seems reasonable to believe that corporate bonds will be an increasingly popular medium of investment over coming years as they are a logical outlet for that portion of the funds which cannot be advantageously invested in mortgages and which is not needed for purposes of liquidity. The sharp decline in the price of the lower quality railroad bonds over the past year, when it was generally felt that recovery was the order of the day, serves to further emphasize the necessity for adhering to the highest quality in purchasing corporate issues, but if such a policy is followed, there is no reason why these issues should not have an important place in the portfolio of savings banks."



## PART IV

## AUDIT OF A MUTUAL SAVINGS BANK





## CHAPTER V

## A SAVINGS BANK AUDIT

Purpose of an audit.

The purpose of an audit of a savings bank is not only to test the work of the clerical force for honesty and efficiency and the best methods of savings bank procedure, but also to (1) find out if the institution is solvent and the management honest; (2) if the assets are intact, and the liabilities as they are shown, the policies safe and the judgment sound; (3) if all the work is being reported correctly and as it should be to the Trustees.

There are four kinds of audit:<sup>(1)</sup>

- a. The internal audit, effected by checking one employee's work against that of another and also by the transfer of a clerk from one position to another;
- b. Audit by state bank examiner;
- c. Trustees' semi-annual audit, involving appraisals of the bank's assets and not necessarily a strict audit;
- d. Audit by an outside person.

"b" and "d" are not only customary but essential and required by law.<sup>(2)</sup> The following is taken from the Statutes of the Massachusetts General Laws, Chapter 168, Section 17: "At the first meeting after their election, the trustees shall elect an auditing committee of no less than three trustees, of which committee neither the treasurer

(1) Kester, Roy B., "Accounting Theory and Practice," Volume III, Chapter IV, page 126, 1921, The Ronald Press Company, N.Y.

(2) Penn. sec. 819-507; New Jersey, sec. 184-42; Wisc. sec. 222.22; Indiana sec. 18-2648; Minn. sec. 7719; Mass. G.L. ch. 168, sec. 17; New York, sec. 272; N.H., ch. 261, secs. 48, 49, 50, 51; Maine, secs. 42, 43, 45; Ohio, sec. 710-69; Oregon, sec. 22-2548; Wash. sec. 3367.



nor more than one member of the board of investment shall be members, who shall at least once during the twelve months following their election, and oftener if required by the commissioner, cause to be made at such time and in such form and manner as the commissioner may determine, by a certified public accountant not connected with said bank, a thorough examination and audit of the books, securities, cash, assets, liabilities, income and expenditures of the corporation, including an accurate trial balance of the depositors' ledger, for the period elapsed since the preceding examination and audit (of the books), or for such other period as the commissioner may prescribe. Said certified public accountant shall be chosen by the auditing committee, subject to the approval of the commissioner, within thirty days after their election. Said accountant shall personally direct and supervise the making of said examination and audit, except that, with the consent of the commissioner, he may verify a trial balance of the depositors' ledger made by the bank within six months, and, with the consent of the commissioner, such assistance as shall be necessary may be furnished by the bank. Said accountant shall report to the auditing committee the result of his examination and audit, and at the next meeting of the trustees thereafter the committee shall render a report, which shall be read, stating in detail the nature, extent and result of the examination and audit, and their report and the accountant's report shall be filed and preserved with the records of the corporation. The committee





shall file with the commissioner a copy of the report of the accountant within ten days after its completion. Said accountant and the auditing committee shall certify and make oath that the reports made by them under this section are correct according to their best knowledge and belief. If the committee fails to cause to be made an examination and audit, including an accurate trial balance of the depositors' ledger as herein provided, the commissioner shall cause them to be made by a certified public accountant in such form and manner as he may prescribe, and the expense thereof shall be paid by the bank."<sup>(1)</sup>

Pennsylvania, Connecticut and Massachusetts require only annual audits by the trustees as represented by their Auditing Committee; but it usually considered good practice, as in Massachusetts, to have two audits per year, one a surprise visit and the other a known visit; the report from the surprise visit is the one usually made to the Commissioner of Banks. This is the audit made by "an outside person", a certified public accountant who will state facts "without fear or favor" in behalf of the Auditing Committee. Not only must an audit report be made to the commissioner of banks or superintendent of banks (N.Y.) but a penalty is inflicted of so much money per day upon the bank for each day's delinquency in making the report. The report to the commissioner is to be made in such form as he may prescribe.<sup>(2)</sup>

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(1) Massachusetts General Laws, Chapter 168, Section 17.

(2) Ibid, Chapter 168, Section 19.





Besides the annual audit report made to the Commissioner of Banks (Mass.), there is the Treasurer's Report which is required by law. The following is taken from the General Laws of Massachusetts, Chapter 168, Section 26, "Annual Report to Commissioner:" "The treasurer of such corporation shall, annually within twenty days after the last business day of October, make a report to the commissioner in such form as he may prescribe, showing accurately the condition of such corporation at close of business on that day, specifying the following particulars: name of corporation and names of incorporators and officers; place where located; amount of deposits; amount of each item of other liabilities; each particular kind of investment, stating the par value, estimated market value and amount invested in each; loans to counties, cities, towns or districts; loans on mortgages of real estate; loans on personal security, stating amount of each class separately; estimated value of real estate, and amount invested therein; cash on deposit in banks and trust companies, with the names of such banks and trust companies and the amount deposited in each; cash on hand; the whole amount of interest or profits received, and the rate and amount of each semi-annual and extra dividend for the previous year; the times for the dividends fixed by the by-laws; the rates of interest received on loans; the total amount of loans bearing each specified rate of interest; the number of outstanding loans of an amount not exceeding three thousand dol-



lars each, and the aggregate amount of the same; the number of open accounts; the number and amount of deposits received; the number and amount of withdrawals; the number of accounts opened and the number of accounts closed, severally, during the previous year; and the annual expenses of the corporation, together with such other information as the commissioner may require. The president, or in his absence from the commonwealth, or disability, a vice president, the treasurer, or in his absence from the commonwealth, or disability, an assistant treasurer, and a majority of the auditing committee shall certify on oath that such reports are correct according to their best knowledge and belief."<sup>(1)</sup>

The commissioner shall furnish blank forms for all statements or reports required to be made to him."<sup>(2)</sup>

Relative to the examination of the savings bank by the commissioner of banks, or superintendent of banks, regulation is given that "The commissioner, either personally or by his examiners, or such others of his assistants as he may designate, shall, at least once in each year, make an examination of the affairs of each bank and ascertain its condition, its ability to fulfill its obligations and also whether it has complied with the law; and he may also, whenever he considers it expedient, make, at the expense of the bank, such further examinations as he deems advisable."<sup>(3)</sup>

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<sup>(1)</sup>Massachusetts General Laws, Chapter 168, Section 26.

<sup>(2)</sup>Ibid, Chapter 167, Section 7.

<sup>(3)</sup>Ibid, Chapter 167, Section 2.





From a practical viewpoint, if there are so many banks in any one state that the condition of the banks are sufficiently good enough to warrant it, these bank examinations take place about every two years at the latest.

The fact is to be stressed that these various audits and examinations do not in any way absolve the trustees, individually, from their duty to the bank to look after the affairs of the mutual savings bank.

Audits, Nos. "a" and "c", as suggested by Mr. Kester, and to which reference is made above, are not usual in practice, although in theory they appear excellent.

There are two main objects that a savings bank audit should determine:

1. Do the assets, as represented by the books really exist? In order to make a complete statement concerning this fact, all of the assets must be examined.

2. Are the liabilities, as represented by the pass book balances, the same as are on the books of the bank? And the other liabilities, do they exist?

#### Examination of Assets.

The agreement of the customers' pass books with the ledger cards or books of the savings bank is substantiated through the periodic verification of pass books, which is required by law<sup>(1)</sup> and which takes place every three years

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(1) Mass.G.L.Chapter 168, Sec. 28; Oregon, sec. 22-2552; Wash. sec. 3372; Vermont, sec. 6739; Maine, sec. 48; N.H., ch. 261, sec. 30.



in the case of Massachusetts savings banks. Some people question the desirability of requiring this strict verification, their idea being that the improved methods of making entries by machines in pass books practically eliminate errors.

The specific audit which is to be worked out in detail is the audit made by request of the auditing committee and by a certified public accountant, elected by them within thirty days after the election of the audit committee by the trustees at their annual meeting.

On a specified day (in case of the known visit) and/or on an unspecified day (in case of the surprise visit), the auditing firm sends a senior auditor, who has charge, with a group of other auditors, some senior and some junior auditors, and assistants to the "Mutual Savings Bank" and they arrive near the close of that day's business, on March 10, 1937.

#### 1. Verification of cash

Each auditor is assigned to a teller and the bookkeepers and when the institution's doors are closed and the tellers have balanced all cash is counted or verified. The auditor in charge has the treasurer or his assistant request a statement and cancelled checks on hand from all the banks in which the Mutual Savings Bank has deposits; likewise a statement of the balance on hand at that depository at the close of business March 10, 1937, is requested to be sent





directly to the auditing firm's address. For the form letter used, see Exhibit 10, Appendix.

Cash and cash items are verified on journal sheets and total amounts checked with the total cash book balance.

2. Sealing of the vaults. The next procedure is to have the bank officer confirm the sealing of the vaults (wherever the bank's securities are kept) by the auditors, pending a physical examination by them.

3. Possession of mortgage notes. The senior auditor in charge of the audit takes possession of the mortgage notes until such time as he can have them listed and the total verified with the total of the mortgages on real estate account.

We will now proceed to account for all the items on a typical balance sheet of a mutual savings bank (see Figure 15, Page 144.)

It is interesting to note the different arrangement, in some instances, that the auditor makes of the same items, which the Mutual Savings Bank has set up in a state-book or published statement for distribution. It probably means that the auditor's arrangement seems more logical to accountant and the bank's arrangement seems more logical from a mutual savings banker's point of view.

4. Investments. At the close of business, March 10, 1937, (our supposed audit date) the security holdings of the bank were placed under seal by the senior auditor, pending physical examination of them later at the safe deposit





vaults (outside of the banking quarters in the case of a suburban bank usually). If there are any securities which, prior to the sealing, have been withdrawn from the vaults for sale, then these securities must be produced for the auditor's inspection. In case some of these securities had been sold, then tracing the broker's invoices to the records of the bank covering the security transactions would be in order.

The securities have to be accounted for by number in addition to ascertaining the par values.

All the purchases and sales of securities have to be traced to the approvals to be found in the minutes of the Board of Investment. Any discrepancies must be noted in the audit report and corrections should be made at a subsequent meeting of the Board of Investment.

The next procedure is to verify the income receivable from investments, such as, dividends on bank stock; interest from the bonds. In case there are any outstanding collections in process, this should be carefully listed in the report, plus a reason for delay in collection. It may be that some bonds have defaulted their interest.

Any unusual situations arising in the investment account during the period under audit should be mentioned. Comment as to the activity of the account; the amount of purchases and sales as compared with the previous audit periods; these are what make a report interesting. Schedules



should be made supporting all statements made.

5. Mortgage Loans on Real Estate. As mentioned above, possession is taken of the mortgage notes at the beginning of the audit and the principal balances are listed and it is then ascertained if the total agrees with the control account.

Then, all the additions to the mortgage account during the period under audit have to be accounted for:

(a) New mortgage loans have to be examined, their applications, proper votes in the minutes of the Board of Investment, mortgage deeds, insurance policies for adequate coverage, all have to be satisfactorily traced.

(b) Mortgage loans granted in connection with sales of foreclosed property have to be traced to the minutes of the Board of Investment.

(c) Mortgage loans restored upon release of possession should be traced to the records.

All deductions from the mortgage loan account should be satisfactorily checked:

(a) Transfers to real estate by foreclosure and in possession. All votes should be traced having to do with to enter and sell at foreclosure or votes to accept deeds, for all of the transfers to real estate in possession or by foreclosure.

(b) Principal payments. All principal payments should be verified; all the partial principal payments should be





checked through to the endorsement of said payment on the back of the mortgage note. All payments in full can only be checked to the "paid" mortgage card.

(c) Amounts cancelled upon assignment of mortgage.

Sometimes by vote of the Board of Investment, a mortgage or mortgages may be released upon assignment; a loss is usually taken. The auditors should be particularly careful that the vote covering such a procedure is in good order.

(d) Home Owners' Loan Corporation Bonds. There is another item which of late years might well be considered under the heading of deductions from the mortgage loan account; particularly during the three years ending June, 1936; and that is the Home Owners' Loan Corporation Bonds, which could be and were accepted during the years mentioned for mortgage loans. A word about the Home Owners' Loan Corporation perhaps would not be amiss, for, although it is not making any additional commitments at the date of this writing, it nevertheless served a very useful function for the relief of the distressed home owners, who had suddenly found themselves, due to the depression, faced with the possibility of losing their homes through foreclosure by mortgagees. Today, it is functioning as a relief loaning agency. The greatest good done by any of the Federal agencies was that done by this Home Owners' Loan Corporation, which furthered the education of the people, or rather the borrowing public, by definitely establishing a



system of amortizing mortgage loans.

From the auditor's point of view, the acceptances of these bonds should be ratified properly in the minutes. Also, the details of the acceptance should be traced to the various bank records, the mortgage records and the investment records.

#### 6. Verification of mortgage interest receivable.

(a) Every item recorded on the mortgage notes, in the case of the current notes, should be checked to the Income Book. In case of "paid" or "transferred" mortgages, each item on the duplicate cards or records should be checked.

(b) Trace to the minutes of the Board of Investment all votes to waive payment of interest or reduce interest rate.

(c) In case of overdue interest receivable, a detailed list should be made to accompany the audit report. If there is any marked condition about this situation, comment should be made in the text submitted by the auditor; such as, any noticeable tendency of the overdue items to increase or decrease. This checking of the overdue items is supposed to be carried on in spite of and independent of any system of recording the overdue mortgage interest receivable on the part of the Mutual Savings Bank.

#### 7. Personal Loans.

As it has been shown, a savings bank may make personal loans secured by collateral with a 35% margin (in most conservative savings institutions), although according to the



law in Massachusetts<sup>(1)</sup> the savings bank may loan up to 80% of the value of the collateral; ie., a marginal safety of only 20%.

At the beginning of the audit, all the personal loans and the collateral securing the personal loans should be listed and placed under seal until such time as they can be examined by the auditors to determine whether they are all intact, together with assignments and powers to pledge, and in agreement with the savings bank's records.

Requests for confirmation of the amount of the loan and a list of the collateral securing such are to be sent by the auditors to the individuals to whom loans were made. (See Exhibit 11, Appendix)

The market value of all collaterals should be ascertained as of the date of the audit. In case it appears that there is a loan or loans for which the collaterals are insufficient to allow for a 35% margin (the required margin of the Mutual Savings Bank, whose audit we are making), then a detailed schedule should be made giving the name or maker, date of the note, maturity, amount of the note, write-downs, book value, and description of collateral (number of shares of stock or par value of bonds and the name of the securities) and market value as of the date of the audit, March 10, 1937.

In case it is found that certain loans, which have

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(1) Massachusetts General Laws, Chapter 168, Section 54 (e)(5)





been reduced in book value by charge-offs (through the Profit and Loss Account) in prior periods, are now eligible for restoration and which have been restored to the full principal amounts due to the appreciation of the value of collateral, then note should be made of these facts.

Votes granting the loans made during the period should be checked with the records of the Board of Investment.

In verifying income receivable from personal loans, every item of interest and discount from the current and paid loan cards should be traced to the income and discount books. If there are any overdue interest items on personal loans, a list should be made to accompany the audit report.

8. Cash. As it has been stated under verification of cash, all cash and cash items on hand at the close of business, March 10, 1937, were counted and traced to subsequent payments of the cash items in the count, with the exception of the items which were still on hand at the end of the audit. These items would be listed in a separate schedule. All checks counted should be put under the control of the auditors and under their supervision deposited in the depository bank for collection and that bank is requested to advise the auditor if all items in that deposit were paid.

Cancelled checks and charges from all the depository banks as at the close of business on March 10, 1937, are secured as mentioned before and a reconciliation of balances



is made with the savings bank's records.

In case the Mutual Savings Bank sells American Express Company checks, then an independent confirmation should be secured from the American Express Company. (See Appendix, Exhibit 12)

9. Certificates of Deposit. In the case of the Mutual Savings Bank today there will be the following certificates of deposit, which are usually lodged with the savings bank's investments and should be examined by the auditors at the time of examination of the rest of the bank's securities:

(a) Mutual Savings Central Fund, Inc. <sup>(1)</sup>

(b) Deposit Insurance Fund <sup>(2)</sup>

#### 10. Bank Building

##### Real Estate Rents and Expenses:

It should be ascertained if there is any change in the book value of the bank building during the period; if the property is owned by the savings bank institution.

It is customary, if one owns one's building to charge one's self with a rental value per month. If such is the case, an account for real estate income would be set up and the amount charged to general expense. Real estate expenses for the period under audit should be approved by the president and treasurer in the general ledger account.

Fire insurance policies should be examined cover-

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(1) For the establishment of this fund, we refer any interested person to Massachusetts General Laws, Acts of 1932, Chapter 44  
 (2) This fund was established by the Acts of 1934, and information covering this fund is to be found in the Mass. G.L. Chapter 43.





ing the building; furniture and fixtures; as well as smudge insurance; plate glass insurance, public liability and steam boiler insurance on the property.

11. Real Estate by foreclosure and  
Real Estate in Possession

This department, known as the Real Estate Department in a savings bank in modern times, it can be safely said, necessitates the most detailed work and takes a great deal of the auditor's time in thoroughly checking it many ramifications.

First of all the properties have to be listed in detail as of the date of audit, giving the following information:

Real Estate by Foreclosure--1, location of property; 2, loan number; 3, date of foreclosure; 4, fire insurance coverage; 5, face of mortgage; 6, insurance, taxes, expenses, and cost of foreclosure; 7, charges to profit and loss; 8, rental income, etc.; 9, book value of property; 10, assessed value of property; 11, reserve.

Real Estate in Possession--1, owner; 2, location of property; 3, loan number; 4, date of entry; 5, fire insurance coverage; 6, face of mortgage; 7, expenses; 8, rental income; 9, book value of property; 10, assessed value.

Analysis should be made to determine whether the trend compares favorably or otherwise with previous audit periods; figures and dates for comparisons would be interest-



ing.

Expenditures made for rehabilitation and operation of the properties and the receipts from rentals and expense refunds should be analyzed.

Concerning the Reserve account for losses on account of sales of the property, care should be taken to ascertain that all the reserves attributable to the sales made during the period have been deducted from the reserve account.

In verifying the foreclosed or possessed properties, examination should be made of proper deeds, entries to possess, or in case of work in process, correspondence with attorney to indicate their custody of those documents in connection with recording them at the Registry of Deeds.

Examination should be made to ascertain if fire insurance policies, effective at the audit date, were on hand to cover the amounts of the properties in foreclosure or in possession. There should be policies for plate glass and steam boiler coverage on commercial buildings and apartment houses owned.

Care should be taken to see that no insurance remains in force on properties, which had been sold during the period.

The auditors should find proper votes in the records covering the entering and selling at foreclosure or



the acceptance of a deed for all the additions made during the period under audit and votes also covering the authorizing of releasing properties from possession.

All expenses for rehabilitation and operation and taxes paid during the period under audit should be verified by examination of all vouchers on file and in case any should be missing, the producing of the cancelled checks, covering the same, would answer the purpose. All expenditures should be traced to the approvals of the Board of Investment in the minutes . It should be ascertained that all approved payments to contractors had not been exceeded.

All sales of foreclosed property should be analyzed and set forth in a schedule to contain the following headings: 1, former mortgage number; 2, location of property; 3, date sold; 4, to whom sold; 5, book value of property; 6, amount received; (mortgage and cash); 7, commission paid; 8, net amount received; 9, total profit or loss on sale. Any unusual conditions should receive comment.

In the verification of sales, all proceeds should be traced to the various records and proper votes authorizing the sales and acceptance of bonds, and commissions paid on the sales should be traced.

Requests for the verification of rentals should be sent to the tenants of the savings bank and address used for replies, of course, would be the office of the auditing firm.





This confirmation is much the same as asked for in the request to depositors, although the wording would naturally be different; ie., request the tenant to state if the rent given for the period stated is correct, whereas the depositor was asked to confirm a balance.

Checking the income receivable from rents for the audit period should include:

1. Inspection of detailed property, rental records and monthly reports of rental office (should there be one, in the real estate department otherwise);

2. Examination that the monthly reports should either show collection of the rent due, or a report of vacancy, or overdue rent for each rentable space for the period;

3. A test check should be made of the daily reports of rentals received from the rental office or real estate department with the subsidiary foreclosure cash book and ledgers.

A schedule should be made to cover overdue rents and vacancies and comments on decreases or increases should be made. Suggested headings for such a schedule are 1, location; 2, suite No.; 3, tenant; 4, monthly rental; 5, paid to (date); 6, unpaid rent; 7, vacant from (date); 8, remarks.

All columns in the detailed foreclosure and possession ledger should be checked, together with the cross footings; balances in the schedules listing foreclosed property and property in possession should be listed to check with the schedules.



## 12. Taxes and Insurance Paid on Mortgaged Property.

This account represents taxes and insurance paid by the mortgagee for the mortgagor, who periodically and systematically makes payments to reduce the amount paid for him.

Examination should be made of all tax bills, if possible, especially the major or large ones and a group of the smaller ones if time permits.

## 13. Securities Acquired in Settlement of Indebtedness.

These securities would naturally be examined at the time of the regular examination of the bank's investments. However, there may have been some recent acquisition of securities and if so, most likely these securities will not have yet been taken to the safe deposit vault, but be lodged in the bank's own vaults.

If any securities have been added to this account during the period under audit, then an examination of the minutes, governing the purchase of such collateral must be made and it must be found to be regular. If there are any securities acquired which are defaulting their interest or dividends, mention must be made of that fact in the audit report. Then, too, if any of these securities have been kept as long as the law will allow, five years in the case of Massachusetts <sup>(1)</sup> permission must be obtained from the Commissioner of Banks in writing for an extension of time in which to hold said bonds. This application is made on such

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(1) Massachusetts, General Laws, Chapter 168, Section 54-13.





form as the Commissioner of Banks or superintendent provides.

#### 14. Insurance Coverage

Insurance policies of the bank should be examined for adequacy and the forms to look for are suggested below (not all savings banks may be equipped with each and every type of policy):

(a) Errors and omissions (failure to renew policies on mortgaged properties);

(b) Workmen's compensation;

(c) Bank burglary and robbery;

(d) Registered mail robbery;

(e) Automobile, public liability and property damage; employees' cars for bank use;

(f) there is also what is known as a blanket form of bond, covering all employees and including dishonesty, forgery, burglary, hold-up or any other form of fraud.

#### Liabilities

1. Deposits Ordinarily a list or trial balance should be made of the depositors' ledger, the purpose and Christmas Clubs accounts, to ascertain their correctness. Also, requests for the verification of the balances or a certain percentage of the whole number of depositors are sent out. Any extraordinary phases concerning the increase or decrease in volume or number should be noted and comments made.



2. Due Mortgagors Account. This account concerns uncompleted mortgage loans. The following is a list of the headings appropriate for a schedule listing the information: 1, number of loan; 2, mortgagor; 3, amount of loan; 4, payments (made to owner); 5, balance to be paid. A check should be made to the minutes to ascertain if all necessary approvals to the payments already charged are there.

3. Suspense Account. This account represents unexpended fire loss settlements or amounts withheld from a mortgage loan for betterments, etc.

If fire settlements, and explanation of the facts should be presented, showing balance due on fire losses. Examination should be made of the records of receipt and payments of all fire loss settlements during the period; vouchers should be checked for these receipts and payments and proper approvals for funds released.

4. Guaranty Fund. Additions are made every dividend period to the Guaranty Fund to be determined by the earnings for the previous period. Votes authorizing the additions to this fund must be traced to the records of the Trustees.

5. Undivided Earnings. A dividend is declared by the Trustees just before it is payable. It is customary for the auditing firm to furnish an estimate of earnings for the previous period in order to enable the Trustees to decide what the rate of the dividend shall be.



According to the procedure in the preceeding sections, receipts of all income for the period have been verified in detail and examination has been made for every item charged to expense.

Vouchers for expenditures charged to the Profit and Loss account during the period should be checked and a resume of the changes in the Undivided Earnings account should be made.

### General

In addition to what has gone before, the following verifications should be made:

1. A check of all the footing of the general cash book and verification of cross footings;

2. Check of the footings of all the subsidiary cash books (income book, expense book, salary book, foreclosure cash book, taxes and insurance cash book and discount book) and verification of cross footings;

3. Check all posting to the general ledger.

4. Verification of the balances in the daily statement of condition book (by addition of the cash book figures during the period to the balances in the general ledger.)

5. Examination of all minutes of meetings during the period and a tracing to the records of all votes which affected the finances.

6. Verification of commissions on life insurance by checking with the reports from the Savings Bank Life Insur-





ance Department at the State House (in Massachusetts) (should there be a life insurance department in the mutual savings bank under audit.

7. Examination of all the receipts issued for securities accepted for safe-keeping.

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The text of the auditing firm would probably end by making final comments (favorable if possible) and then the text will be signed by the auditing firm. Following the text and immediately before the schedules will come the auditor's certificate and a suggested form for such a certificate is on page 143, Figure 14.



AUDITORS' CERTIFICATE (1)

We have made an examination of the books and records of the Mutual Savings Bank for the period from September 10, 1936, to March 10, 1937, inclusive.

The accompanying statement of financial condition (Exhibit A), with supporting schedules, in our opinion, fairly presents the financial condition of the bank as at the close of business on March 10, 1937.

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Certified Public Accountants

Boston, Massachusetts  
March 13, 1937

Figure 14

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(1) Recommended by Charles F. Rittenhouse & Company,  
1 Federal Street, Boston, Massachusetts





MUTUAL SAVINGS BANKStatement of Financial ConditionAs at the Close of Business on March 10, 1937ASSETS

Investments, at book value, Schedule 1		\$	_____
Loans:			
Mortgage loans on real estate	\$	_____	
Personal loans, Schedule 2		_____	_____
Cash, Schedule 3:			
On deposit in other banks	\$	_____	
On hand		_____	_____
Certificates of deposit:			
Mutual Savings Central Fund, Inc.	\$	_____	
Deposit Insurance Fund		_____	_____
Bank building			_____
Real estate by foreclosure, Schedule 4 (number of properties)	\$	_____	
Real estate in possession, Schedule 5 (number of properties)		_____	
Less: Reserve for losses on disposals, Schedule 4	\$	_____	
Taxes and insurance paid on mortgaged property		_____	_____
Securities acquired in settlement of indebtedness, at book value, Schedule 6			_____
TOTAL ASSETS		\$	_____

LIABILITIES

Liability to depositors:			
Savings Accounts, Schedule 7	\$	_____	
Christmas Club Accounts		_____	
Purpose Club Accounts		_____	
Total deposits		\$	_____
Due on uncompleted mortgage loans			_____
Suspense account items:			
Unexpended fire losses	\$	_____	
Amount withheld from mortgage loan for betterments, etc.		_____	_____
Guaranty fund	\$	_____	
Undivided earnings, Exhibit B		_____	_____
TOTAL LIABILITIES		\$	_____

Figure 15

Note: This form is recommended by Charles F. Rittenhouse & Co.,  
1 Federal Street, Boston, Massachusetts



## PART V

## CONCLUSIONS



## CHAPTER VI

### CONCLUSIONS

It is hoped that a better, clearer understanding of the word "mutual", when applied to savings banks, has been gained from reading this disquisition; namely, a banking institution without stockholders, incorporated for the purpose of receiving the savings of the people, investing the same for those depositors in a manner prescribed by law and paying to the depositors as interest all the earnings of the institution except the amount paid for expenses and such part as may be set aside and held in reserve as a guarantee fund for the benefit and protection of the depositors. The mutual savings bank is more philanthropic than any other type of banking institution. Its primary motive is to teach thrift.

The beginning of the savings bank was humble; its history, interesting; its progress, tremendous; a necessity for the working people.

The men, to whom is entrusted the directing of the affairs of the mutual savings banks, must necessarily be of excellent standing in their respective communities, of high integrity, of keen understanding of human nature, and must possess a large portion of human kindness. Corp-





orators and trustees serve without compensation.

In Chapter II the most up-to-date method of the manipulation of depositors' accounts has been presented and specific illustrations given. Certain new forms for use in connection with the accounts have been presented, as well as improved "old" forms. The whole system is supplied with the idea of the greatest efficiency in giving service to the depositors.

Bank bookkeeping accounts for the operation of the business are a good deal of a mystery to the layman; but the accounts, which appear on a mutual savings bank statement, although clear enough in themselves, usually require explaining as to each account's relationship to the whole or total assets of the mutual savings bank.

Special attention has been given to the records and procedure concerning real estate acquired through foreclosure. The method involved seems to the writer to be the simplest and most efficient. Savings bankers as a whole have not had as much experience with this form of asset as they have had within the last seven years; from this experience, they have increased their vigilance over that other asset, so akin to this one,--first mortgages on real estate.

Insurance of deposits has been a burning question



since 1933; in Chapter III is shown the provision made for the depositors of the mutual savings banks of Massachusetts. Who knows but what insurance of mortgage loans will be next provided in the Statutes?

In Chapter III we have endeavored to clarify the presentation of the assets and liabilities of a mutual savings bank. Improved and simplified forms for the keeping of the records have been suggested and illustrations given in the appendix.

In Chapter IV the regulations and practices of investing the depositors' funds are given to be a guide to a better understanding of the items on the balance sheet, listed as investments. Much attention has been paid to what constitutes a first mortgage on real estate, which makes up the greatest percentage of invested funds. These regulations and practices are compared by specific illustrations with those of the mutual savings banks' direct competitor--savings, building, and loan associations.

The principles involved in investing in such securities as United States government obligations, municipal, railroad and public utility bonds are given in such form that it is believed the layman will have a better understanding of the subject matter.

Savings banks are required to be examined and





audited by law, so naturally the process has been going on for a long time. But audits in the past five or ten years have been more extensive and detailed, thus bringing greater benefit to the savings banks and their depositors. To the best knowledge of the writer, only one such form of detailed audit has ever been written for a savings bank of the mutual type and it is believed that that form is unpublished. No reference, other than this, has been made to it; because, in setting forth the material in Chapter V, "A Savings Bank Audit," it was deemed better not to be influenced or deterred from giving what is believed to be as simple and yet as detailed an audit as can be made for a mutual savings bank. Since the commencement of this writing, it is understood that a committee for the New York mutual savings banks has undertaken to study and present what they believe to be correct audit procedure for their banks. As yet, no material has been published.

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Competition is good; but only insofar as it makes for progress! It is not good when it destroys or diminishes! Mutual Savings Banks will continue to improve and serve the need of the common folk--the real working class of people--in spite of the increasing will on the part of certain agencies to the contrary! It would be hard to believe that



the working class, the depositors of the mutual savings banks, the people of sound reasoning, would give up a system which has so effectively weathered so many storms and still, without aid, is able to stand alone and be the epitome of security.



## APPENDIX





MUTUAL SAVINGS BANK STATISTICS<sup>(1)</sup>  
January 1, 1937

(000  
omitted)

<u>State</u>	<u>No. Banks</u>	<u>Assets</u>	<u>Deposits</u>	<u>Surplus</u>	<u>No. of Depositors</u>
California	1	\$101,968,946	\$88,479,598	\$8,489,348	68
Connecticut	73	784,214,861	705,491,493	74,578,449	1113
Delaware	2	40,049,815	34,098,526	5,838,356	96
Indiana	5	24,095,480	20,724,994	3,231,669	29
Maine	32	140,630,853	125,281,422	14,518,464	271
Maryland	12	242,128,406	216,659,639	25,315,998	444
Massachusetts	193	2,369,749,312	2,130,452,382	217,672,064	3152
Minnesota	1	70,287,505	67,031,329	3,256,176	172
New Hampshire	34	183,752,138	164,680,642	19,058,952	254
New Jersey	23	343,457,293	306,378,472	34,973,714	549
New York	135	6,076,277,872	5,246,578,294	786,212,059	6712
Ohio	3	128,484,026	119,135,840	8,391,673	176
Oregon	1	1,437,510	1,370,366	55,366	1
Pennsylvania	7	614,384,709	569,814,635	43,628,309	981
Rhode Island	9	189,515,174	173,765,875	14,509,054	207
Vermont	14	80,468,077	65,948,592	6,313,501	106
Washington	3	63,647,353	60,807,910	2,569,228	105
Wisconsin	4	4,861,967	4,373,971	196,306	21
<b>TOTAL U.S.</b>	<b>552</b>	<b>\$11,459,411,297</b>	<b>\$10,101,073,980</b>	<b>\$1,268,808,686</b>	<b>14,467</b>

Exhibit 1.

(1) This table is taken from the 1937 Directory of Mutual Savings Banks of the United States as compiled and issued by the National Association of Mutual Savings Banks, 60 East 42nd Street, New York, N. Y. Comments concerning this table appear on page 6, line 16, of Chapter I.



NO. \_\_\_\_\_

For Value Received I hereby assign, transfer  
and set over unto

\_\_\_\_\_  
Deposit Book No. \_\_\_\_\_ issued by the Podunk Savings  
Bank, Podunk, Nowhere, to \_\_\_\_\_  
together with all moneys due thereon, both principal  
and interest, subject to the By-Laws of said Institution.

WITNESS my hand and seal this \_\_\_\_\_ day of  
\_\_\_\_\_, 19\_\_.

In presence of \_\_\_\_\_ (SEAL)

\_\_\_\_\_  
I hereby acknowledge the receipt of the Deposit Book hereby  
transferred.

Exhibit 2  
Transfer form





























MAR.

PERSONAL LOANS

NAME

NO.

ADDRESS

DATE DUE

DATE OF NOTE

TIME

RATE

CASH BOOK DATE

LOANED

REPAID

BALANCE DUE

Exhibit 6  
(Front view)







LOCATION															MTGE NO.			
NAME															TYPE		AREA	
MADE ENTRY															FORECLOSED		ORIGINAL MORTGAGE	
ASSESSED															INSURANCE		PRESENT MORTGAGE	
	DATE		CASH BOOK		PD. TO DATE OF FOR.		OTHER EXP.	AMOUNT		EXPENSES		LESS			SUNDRY	BALANCE		
					TAXES ETC.			LOAN	SUB TO FOR.	RENT								
1																		
2																		
3																		
4																		
5																		
6																		
7																		
8																		
9																		
10																		
11																		
12																		
13																		
14																		
15																		

Exhibit 7  
Subsidiary ledger sheet - Real Estate by Foreclosure and  
in Possession















Suggested letter to depository banks asking  
for balance as at the close of business,  
March 10, 1937, (the date the auditors arrive):

LETTERHEAD

March 10, 1937

Second National Bank  
1 Salem Street  
Boston, Massachusetts

Gentlemen:

Please confirm to our auditors,  
Messrs. \_\_\_\_\_ (name) \_\_\_\_\_,  
\_\_\_\_\_ (address) \_\_\_\_\_, Boston, Massachusetts,  
the balance to our credit at the close of bus-  
ness as of March 10, 1937.

Very truly yours,

G:B

President

Exhibit 10



(Auditor's Verification Request)

(NAME OF FIRM)  
Certified Public Accountants

165.

(address)

Mr. John C. Doe  
1 Salem Street  
Podunk, Nowhere

In making the regular audit of the accounts of the  
Podunk Savings Bank, we find that their records  
show the information listed below in respect to your loan  
as at the close of business, March 10, 1937.

If this statement is correct please sign the coupon below  
and mail it promptly to us in the enclosed stamped envelope.  
If your records indicate a difference, please give us full  
details.

(NAME OF FIRM)

Will you kindly comply with the above request from our  
auditors at your earliest convenience.

(signature of officer of the  
Podunk Savings Bank)

---

Balance of loan

\$\_\_\_\_\_

Details of collateral:

-----  
Loan Number \_\_\_\_\_

To (NAME OF FIRM):

The statement of my loan from the Podunk Savings  
Bank as at March 10, 1937, is (is not) correct.

Signature \_\_\_\_\_ (Mr. Doe's)



(ON BANK LETTERHEAD PAPER)

Date\_\_\_\_\_

To the Treasurer  
 American Express Company  
 65 Broadway  
 New York, N. Y.

Dear Sir:

In connection with an audit of the accounts and records of this bank by (name of auditing firm), (address of firm), we are writing to you to request a confirmation for them of the numbers and denominations of your Travelers' Cheques in our hands at the close of business, March 10, 1937.

Our records show the following cheques on hand at that date:

<u>Numbers</u>	<u>Denomin- ation</u>	<u>Amount</u>
R 1,768,658-R1,768,679	\$100.	\$2,200.
E 331,403-E 331,449	10.	<u>470.</u>
<u>Total amount</u> - - - - -		<u>\$2,670.</u>

According to our records, the last sale prior to March 10, 1937, amounted to \$100. consisting of Nos. E331,393 to E331,402, inclusive, at \$10. each made on March 3, 1937.

Will you kindly address your reply directly to our auditors, using the enclosed envelope. Your attention to this request will be appreciated by us.

Very truly yours,

Enc.  
 X:Z

Treasurer

Exhibit 12





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Committee for compiling the draft of suggested law governing operation and management of mutual savings bank; partial report (mimeographed); part used concerning incorporation of a mutual savings bank; National Association of Mutual Savings Banks, New York.

"Savings, Building and Loan Principles," pp. 179 through 190, and Chapt. XII; mimeographed, 1937; The American Savings, Building and Loan Institute, Chicago, Illinois.



## MISCELLANEOUS

"By-Laws of the Malden Savings Bank," Article II, Secs. 2 and 3; Article III, Sec. 2; Article III, Sec. 3; 1860 (revised and amended, 1936); Malden Savings Bank, Malden, Massachusetts.

Motto of Malden Savings Bank, Malden, Massachusetts; incorporated March 30, 1860.











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Bellamy

Accounting for savings

banks

ISSUED TO

DATE

8

Wm. H. Newcomb

BOSTON UNIVERSITY



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